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

Form 10-K/A

(Amendment No. 2)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission File Number 000-50671

Liberty Media International, Inc.
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

Portions of the definitive proxy statement of the Registrant's 2005 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

EXPLANATORY NOTE

The Registrant is filing this Amendment No. 2 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2004 in order to (i) make certain changes to the consolidated financial statements of Torneas y Competencias S.A., and (ii) correct certain typographical errors that appeared on page IV-41 and Exhibit 23.2 and Exhibit 23.3. Accordingly, the Registrant hereby amends and replaces in its entirety Item 15 of its Annual Report on Form 10-K for the year ended December 31, 2004.

* * *

LIBERTY MEDIA INTERNATIONAL, INC.

FORM 10-K/A
(Amendment No. 2)

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) FINANCIAL STATEMENTS

The financial statements required under this Item begin on page II-38 of this Annual Report.

(a) (2) FINANCIAL STATEMENT SCHEDULES

The financial statement schedules required under this Item are as follows:

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(a) (3) EXHIBITS

Listed below are the exhibits filed as part of this Annual Report (according to the number assigned to them in Item 601 of Regulation S-K):

2 — Plan of Acquisition Reorganization, Arrangement, Liquidation or Succession:

2.1 Agreement and Plan of Merger, dated as of January 17, 2005, among New Cheetah, Inc. (now known as Liberty Global, Inc.), the Registrant, UnitedGlobalCom, Inc. (“UGC”), Cheetah Acquisition Corp. and Tiger Global Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, dated January 17, 2005)

3 — Articles of Incorporation and Bylaws:

3.1 Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form 10, dated April 2, 2004 (File No. 000-50671) (the “Form 10”))

3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registrant’s Registration Statement on Form 10, dated May 25, 2004 (File No. 000-50671) (the “Form 10 Amendment”))

4 — Instruments Defining the Rights of Securities Holders, including Indentures:

4.1 Specimen certificate for shares of Series A common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.1 to the Form 10)

4.2 Specimen certificate for shares of Series B common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.2 to the Form 10)

4.3 Indenture, dated as of April 6, 2004, between UGC and The Bank of New York (incorporated by reference to Exhibit 4.1 to UGC’s Current Report on Form 8-K, dated April 6, 2004 (File No. 000-496-58) (the “UGC April 2004 8-K”))

4.4 Registration Rights Agreement, dated as of April 6, 2004, between UGC and Credit Suisse First Boston (incorporated by reference to Exhibit 10.1 to the UGC April 2004 8-K)

4.5	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding B.V. (“UPC Broadband”) and UPC Financing Partnership (“UPC Financing”), as Borrowers, the guarantors listed therein, and TD Bank Europe Limited, as Facility Agent and Security Agent, including as Schedule 3 thereto the Restated €1,072,000,000 Senior Secured Credit Facility, originally dated January 16, 2004, among UPC Broadband, as Borrower, the guarantors listed therein, the banks and financial institutions listed therein as Initial Facility D Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and the facility agents under the Existing Facility (as defined therein) (the “2004 Credit Agreement”) (incorporated by reference to Exhibit 10.32 to UGC’s Annual Report on Form 10-K, dated March 14, 2005 (File No. 000-496-58) (the “UGC 2004 10-K”))
4.6	Additional Facility Accession Agreement, dated June 24, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility E Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.2 to UGC’s Current Report on Form 8-K, dated June 29, 2004 (File No. 000-496-58))
4.7	Additional Facility Accession Agreement, dated December 2, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility F Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.1 to UGC’s Current Report on Form 8-K, dated December 2, 2004 (File No. 000-496-58))
4.8	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility G Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.39 to the UGC 2004 10-K)
4.9	Additional Facility Accession Agreement, dated March 7, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility H Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.40 to the UGC 2004 10-K
4.10	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K)
4.11	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, TD Bank Europe Limited and Toronto Dominion (Texas), Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent, including as Schedule 3 thereto the Restated Credit Agreement, €3,500,000,000 and US$347,500,000 and €95,000,000 Senior Secured Credit Facility, originally dated October 26, 2000, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, the Lead Arrangers listed therein, the banks and financial institutions listed therein as Original Lenders, TD Bank Europe Limited and Toronto-Dominion (Texas) Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent (incorporated by reference to Exhibit 10.33 to the UGC 2004 10-K)
4.12	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith
10 — Material Contracts:	
10.1	Reorganization Agreement, dated as of May 20, 2004, among Liberty Media Corporation (“Liberty”), the Registrant and the other parties named therein (incorporated by reference to Exhibit 2.1 to the Form 10 Amendment)
10.2	Form of Facilities and Services Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.3 to the Form 10 Amendment)
10.3	Agreement for Aircraft Joint Ownership and Management, dated as of May 21, 2004, between Liberty and the Registrant (incorporated by reference to Exhibit 10.4 to the Form 10 Amendment)

10.4	Form of Tax Sharing Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.5 to the Form 10 Amendment)
10.5	Form of Credit Facility between Liberty and the Registrant (terminated in accordance with its terms) (incorporated by reference to Exhibit 10.6 to the Form 10 Amendment)
10.6	Liberty Media International, Inc. 2004 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 10 Amendment)
10.7	Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (incorporated by reference to Exhibit 10.2 to the Form 10 Amendment)
10.8	Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/ A (Amendment No. 1) with respect to the Registrant's common stock, dated July 14, 2004 (File No. 005-79904))
10.9	Form of Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, dated August 16, 2004 (File No. 000-50671) (the "LMI June 2004 10-Q"))
10.10	Form of Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the LMI June 2004 10-Q)
10.11	Liberty Media International, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8, dated June 23, 2004 (File No. 333-116790))
10.12	Description of Director Compensation Policy*
10.13	Form of Indemnification Agreement between the Registrant and its Directors*
10.14	Form of Indemnification Agreement between the Registrant and its Executive Officers*
10.15	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to UGC's Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58) (the "UGC 2003 10-K"))
10.16	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
10.17	2003 Equity Incentive Plan of UGC, effective September 1, 2003 (incorporated by reference to Exhibit 10.9 to the UGC 2003 10-K)
10.18	Amended and Restated Stockholders' Agreement, dated as of May 21, 2004, among the Registrant, Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty (incorporated by reference to Exhibit 10.23 to the Form 10 Amendment)
10.19	Standstill Agreement between UGC and Liberty, dated as of January 5, 2004 (incorporated by reference to Exhibit 10.2 to UGC's Current Report on Form 8-K, dated January 5, 2004 (File No. 000-496-58))
10.20	Standstill Agreement among UGC, Liberty and the parties named therein, dated January 30, 2002 (terminated except as to (i) UGC's obligations under the final sentence of Section 9(b) and (ii) Section 7B and the related definitions in Section 1 as set forth in, and as modified by, the Letter Agreement referenced in Exhibit 10.21)(incorporated by reference to Exhibit 10.9 to UGC's Registration Statement on Form S-1, dated February 14, 2002 (File No. 333-82776))
10.21	Letter Agreement, dated November 12, 2003, between UGC and Liberty (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated November 12, 2003 (File No. 000-496-58))
10.22	Share Exchange Agreement, dated as of August 18, 2003, among Liberty and the Stockholders of UGC named therein (incorporated by reference to Exhibit 7(j) to Liberty's Schedule 13D/ A with respect to UGC's Class A common stock, dated August 21, 2003)

10.23	Amendment to Share Exchange Agreement, dated as of December 22, 2003, among Liberty and the Stockholders of UGC named on the signature pages thereto (incorporated by reference to Exhibit 4.5 to Liberty's Registration Statement on Form S-3, dated December 24, 2003 (File No. 333-111564))
10.24	Stock and Loan Purchase Agreement, dated as of March 15, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated July 1, 2004 (File No. 000-496-58) (the "UGC July 2004 8-K"))
10.25	Amendment to the Purchase Agreement, dated as of July 1, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.2 to the UGC July 2004 8-K)
10.26	Shareholders Agreement, dated as of July 1, 2004, among UGC, UPC France Holding BV and Suez SA (incorporated by reference to Exhibit 10.3 to the UGC July 2004 8-K)
10.27	Amended and Restated Operating Agreement dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant*

21 — List of Subsidiaries*

23 — Consent of Experts and Counsel:

23.1	Consent of KPMG LLP**
23.2	Consent of KPMG AZSA & Co.**
23.3	Consent of KPMG AZSA & Co.**
23.4	Consent of Finsterbusch Pickenhayn Sibille**
23.5	Consent of KPMG LLP**

31 — Rule 13a-14(a)/15d-14(a) Certification:

31.1	Certification of President and Chief Executive Officer**
31.2	Certification of Senior Vice President and Treasurer**
31.3	Certification of Senior Vice President and Controller**

32 — Section 1350 Certification**

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* Filed with the Registrant's Form 10-K, dated March 14, 2005

** Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIBERTY MEDIA CORPORATION

By /s/ BERNARD G. DVORAK

Bernard G. Dvorak
Senior Vice President and Controller

Dated: April 18, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ JOHN C. MALONE John C. Malone	Chairman of the Board, Chief Executive Officer, President and Director	April 18, 2005
/s/ ROBERT R. BENNETT Robert R. Bennett	Vice Chairman	April 18, 2005
/s/ DONNE F. FISHER Donne F. Fisher	Director	April 18, 2005
/s/ DAVID E. RAPLEY David E. Rapley	Director	April 18, 2005
/s/ M. LAVOY ROBISON M. LaVoy Robison	Director	April 18, 2005
/s/ LARRY E. ROMRELL Larry E. Romrell	Director	April 18, 2005
/s/ J. C. SPARKMAN J. C. Sparkman	Director	April 18, 2005
/s/ J. DAVID WARGO J. David Wargo	Director	April 18, 2005
/s/ GRAHAM E. HOLLIS Graham E. Hollis	Senior Vice President and Treasurer (Principal Financial Officer)	April 18, 2005
/s/ BERNARD G. DVORAK Bernard G. Dvorak	Senior Vice President and Controller (Principal Accounting Officer)	April 18, 2005

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Report of Independent Registered Public Accounting Firm

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

Under date of March 11, 2005, we reported on the consolidated balance sheets of Liberty Media International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, which are included in the Company's annual report on Form 10-K for the year ended December 31, 2004. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules I and II in the Company's annual report on Form 10-K for the year ended December 31, 2004. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG LLP

Denver, Colorado
March 11, 2005

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)

CONDENSED BALANCE SHEET
(Parent Company Only)
As of December 31, 2004
amounts in thousands

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,069,996
Derivative instruments	56,011
Other current assets	621
Total current assets	1,126,628
Investments in consolidated subsidiaries	4,133,285
Property and equipment, at cost	7,597
Accumulated depreciation	(387)
	7,210
Total assets	$ 5,267,123
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accrued liabilities	$ 3,927
Derivative instruments	5,257
Total current liabilities	9,184
Other long-term liabilities	31,133
Total liabilities	40,317
Commitments and contingencies	
Stockholders' Equity:	
Series A common stock, $.01 par value. Authorized 500,000,000 shares; issued and outstanding; 168,514,962 and nil shares at December 31, 2003 and 2004, respectively	1,685
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding; 7,264,300 and nil shares at December 31, 2003 and 2004, respectively	73
Series C common stock, $.01 par value. Authorized 500,000,000 shares; no shares issued at December 31, 2004 or 2003	—
Additional paid-in capital	7,001,635
Accumulated deficit	(1,662,707)
Accumulated other comprehensive loss, net of taxes	14,010
Treasury stock, at cost	(127,890)
Total stockholders' equity	5,226,806
Total liabilities and stockholders' equity	$ 5,267,123

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)

CONDENSED STATEMENT OF OPERATIONS
(Parent Company Only)
For the seven months ended December 31, 2004
amounts in thousands

Operating costs and expenses:	
Selling, general and administrative (SG&A)	$ 8,535
Stock-based compensation charges	20,382
Depreciation and amortization	387
Operating loss	(29,304)
Other income (expense):	
Interest and dividend income	8,673
Realized and unrealized losses on derivative instruments, net	(4,146)
Other income, net	1,465
	5,992
Loss before income taxes and equity in income of consolidated subsidiaries, net	(23,312)
Equity in income of consolidated subsidiaries, net	76,743
Income tax benefit	5,763
Net income	$ 59,194

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)

CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(Parent Company Only)
For the seven months ended December 31, 2004

	Common stock			Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Treasury stock, at cost	Total stockholders' equity
	Series A	Series B	Series C					
	amounts in thousands							
Balance at June 1, 2004	$ 1,399	61	—	6,227,851	(1,721,901)	(56,388)	—	4,451,022
Net earnings	—	—	—	—	59,194	—	—	59,194
Other comprehensive earnings	—	—	—	—	—	70,398	—	70,398
Adjustment due to issuance of stock by subsidiaries and affiliates and other changes in subsidiary equity, net of taxes	—	—	—	6,049	—	—	—	6,049
Common stock issued in rights offering	283	12	—	735,366	—	—	—	735,661
Stock issued for stock option exercises	3	—	—	11,987	—	—	—	11,990
Repurchase of common stock	—	—	—	—	—	—	(127,890)	(127,890)
Stock-based compensation	—	—	—	20,382	—	—	—	20,382
Balance at December 31, 2004	$ 1,685	73	—	7,001,635	(1,662,707)	14,010	(127,890)	5,226,806

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Information)

CONDENSED STATEMENT OF CASH FLOWS
(Parent Company Only)
For the seven months ended December 31, 2004
amounts in thousands

Cash flows from operating activities:	
Net earnings	$ 59,194
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Stock-based compensation charges	20,382
Realized and unrealized losses on derivative instruments, net	4,146
Deferred income tax expense	(4,417)
Other noncash items, net	30,582
Changes in operating assets and liabilities	
Receivables, prepaids and other	(329)
Payables and accruals	2,242
Net cash provided by operating activities	111,800
Cash flows from investing activities:	
Investments in and loans to consolidated subsidiaries, affiliates and others	323,538
Net cash paid to purchase or settle derivative instruments	(35,653)
Other investing activities, net	(36)
Net cash used by investing activities	287,849
Cash flows from financing activities:	
Net proceeds received from rights offering	735,661
Treasury stock purchase	(127,890)
Proceeds from stock option exercises	11,990
Net cash provided by financing activities	619,761
Net increase in cash and cash equivalents	1,019,410
Cash and cash equivalents:	
Beginning of period	50,586
End of period	$ 1,069,996
Cash paid for interest	—
Net cash paid for taxes	$ 4,383

LIBERTY MEDIA INTERNATIONAL, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

	Allowance for Doubtful Accounts							
	Balance at beginning of period		Additions to costs and expenses	Acquisition	Deductions or write-offs	FCTA	Other	Balance at end of period
	amounts in thousands							
Year ended December 31:								
2002	$	11,208	6,689	—	(1,162)	(3,631)	—	13,104
2003	$	13,104	1,450	—	(2,076)	1,469	—	13,947
2004	$	13,947	22,663	51,400	(30,765)	3,644	501	61,390

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Jupiter Telecommunications Co., Ltd. (a Japanese corporation) and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG AZSA & Co.

Tokyo, Japan
February 14, 2005

CONSOLIDATED BALANCE SHEETS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	December 31, 2003	December 31, 2004
	(Yen in thousands)	
Current assets:		
Cash and cash equivalents	¥ 7,785,978	¥ 10,420,109
Restricted cash	1,773,060	—
Accounts receivable, less allowance for doubtful accounts of ¥229,793 thousand in 2003 and ¥245,504 thousand in 2004	7,907,324	8,823,311
Loans to related party (Note 5)	—	4,030,000
Prepaid expenses and other current assets (Note 8)	1,596,150	4,099,032
Total current assets	19,062,512	27,372,452
Investments:		
Investments in affiliates (Notes 3 and 5)	2,794,533	3,773,360
Investments in other securities, at cost	2,891,973	2,901,566
	5,686,506	6,674,926
Property and equipment, at cost (Notes 5 and 7):		
Land	1,826,787	1,796,217
Distribution system and equipment	312,330,187	344,207,670
Support equipment and buildings	11,593,849	12,612,896
	325,750,823	358,616,783
Less accumulated depreciation	(81,523,580)	(108,613,916)
	244,227,243	250,002,867
Other assets:		
Goodwill, net (Notes 2 and 4)	139,853,596	140,658,718
Other (Note 4 and 8)	13,047,229	14,582,383
	152,900,825	155,241,101
	¥ 421,877,086	¥ 439,291,346

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

CONSOLIDATED BALANCE SHEETS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	December 31, 2003	December 31, 2004
	(Yen in thousands)	
Current liabilities:		
Short-term loans	¥ —	¥ 250,000
Long-term debt — current portion (Notes 6 and 12)	2,438,480	5,385,980
Capital lease obligations — current portion (Notes 5, 7 and 12):		
Related parties	7,673,978	8,237,323
Other	1,800,456	1,291,918
Accounts payable	17,293,932	17,164,463
Accrued expenses and other liabilities	3,576,708	6,155,380
Total current liabilities	32,783,554	38,485,064
Long-term debt, less current portion (Notes 6 and 12):		
Related parties	149,739,250	—
Other	72,092,465	194,088,485
Capital lease obligations, less current portion (Notes 5, 7 and 12):		
Related parties	17,704,295	19,714,799
Other	3,951,900	2,560,511
Deferred revenue	41,635,426	41,699,497
Severance and retirement allowance (Note 9)	2,023,706	2,718,792
Redeemable preferred stock of consolidated subsidiary (Note 10)	500,000	500,000
Other liabilities	3,411,564	180,098
Total liabilities	323,842,160	299,947,246
Minority interest	1,266,287	974,227
Commitments and contingencies (Note 14)		
Shareholders' equity (Note 11):		
Ordinary shares no par value	63,132,998	78,133,015
Authorized 15,000,000 shares; issued and outstanding 4,684,535.74 shares at December 31, 2003 and 5,146,074.74 shares at December 31, 2004		
Additional paid-in capital	122,837,273	137,930,774
Accumulated deficit	(88,506,887)	(77,685,712)
Accumulated other comprehensive loss	(694,745)	(8,204)
Total shareholders' equity	96,768,639	138,369,873
	¥ 421,877,086	¥ 439,291,346

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

CONSOLIDATED STATEMENTS OF OPERATIONS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Year ended December 31, 2002	2003	2004
	(Yen in thousands, except share and per share amounts)		
Revenue (Note 5):			
Subscription fees	¥ 97,144,356	¥ 123,214,958	¥ 140,826,446
Other	19,486,170	19,944,074	20,519,825
	116,630,526	143,159,032	161,346,271
Operating costs and expenses:			
Operating and programming costs (Note 5)	45,967,220	49,895,426	53,869,646
Selling, general and administrative (inclusive of stock compensation expense of ¥61,902 thousand in 2002, ¥120,214 thousand in 2003 and ¥84,267 thousand in 2004) (Notes 5 and 11)	44,266,444	43,650,593	44,311,685
Depreciation and amortization	30,079,753	36,410,894	40,573,166
	120,313,417	129,956,913	138,754,497
Operating income (loss)	(3,682,891)	13,202,119	22,591,774
Other income (expense):			
Interest expense, net:			
Related parties (Note 5)	(2,847,551)	(4,562,594)	(4,055,343)
Other	(1,335,400)	(3,360,674)	(6,045,939)
Other income, net	147,639	316,116	37,574
Income (loss) before income taxes and other items	(7,718,203)	5,594,967	12,528,066
Equity in earnings of affiliates (inclusive of stock compensation expense of ¥2,156 thousand in 2002, ¥(2,855) thousand in 2003 and ¥9,217 thousand in 2004) (Note 11)	235,792	414,756	610,110
Minority interest in net (income) losses of consolidated subsidiaries	196,498	(448,668)	(458,624)
Income (loss) before income taxes	(7,285,913)	5,561,055	12,679,552
Income taxes (Note 8)	(256,763)	(209,805)	(1,858,377)
Net income (loss)	¥ (7,542,676)	¥ 5,351,250	¥ 10,821,175
Per share data:			
Net income (loss) per share — basic and diluted	¥ (1,917)	¥ 1,214	¥ 2,221
Weighted average number of ordinary shares outstanding — basic and diluted	3,934,286	4,407,046	4,871,169

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Ordinary Shares	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(Yen in thousands, except per share amounts)					
Balance at January 1, 2002	¥ 47,002,623	¥ 106,525,481		¥ (86,315,461)	¥ —	¥ 67,212,643
Net loss	—	—	¥ (7,542,676)	(7,542,676)	—	(7,542,676)
Other comprehensive income			—			
Comprehensive loss			¥ (7,542,676)			
Stock compensation (Notes 1 and 11)	—	64,058		—	—	64,058
Balance at December 31, 2002	¥ 47,002,623	¥ 106,589,539		¥ (93,858,137)	¥ —	¥ 59,734,025
Net income	—	—	¥ 5,351,250	5,351,250	—	5,351,250
Other comprehensive loss:						
Unrealized loss on cash flow hedge			(694,745)		(694,745)	(694,745)
Comprehensive income			¥ 4,656,505			
Stock compensation (Notes 1 and 11)	—	117,359		—	—	117,359
Ordinary shares issued upon conversion of long-term debt; 750,250 shares at ¥43,000 per share (Note 6)	16,130,375	16,130,375		—	—	32,260,750
Balance at December 31, 2003	¥ 63,132,998	¥ 122,837,273		¥ (88,506,887)	¥ (694,745)	¥ 96,768,639
Net income	—	—	¥ 10,821,175	10,821,175	—	10,821,175
Other comprehensive gain:						
Unrealized gain on cash flow hedge			686,541		686,541	686,541
Comprehensive income			¥ 11,507,716			
Stock compensation (Notes 1 and 11)	—	93,484		—	—	93,484
Ordinary shares issued; 461,539 shares at ¥65,000 per share (Note 1)	15,000,017	15,000,017		—	—	30,000,034
Balance at December 31, 2004	¥ 78,133,015	¥ 137,930,774		¥ (77,685,712)	¥ (8,204)	¥ 138,369,873

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

	Year ended December 31,		
	2002	2003	2004
		(Yen in thousands)	
Cash flows from operating activities:			
Net income (loss)	¥ (7,542,676)	¥ 5,351,250	¥ 10,821,175
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on forgiveness of subsidiary debt	—	(400,000)	—
Depreciation and amortization	30,079,753	36,410,894	40,573,166
Equity in earnings of affiliates	(235,792)	(414,756)	(610,110)
Minority interest in net income (losses) of consolidated subsidiaries	(196,498)	448,668	458,624
Stock compensation expense	61,902	120,214	84,267
Deferred income taxes	—	—	45,591
Provision for retirement allowance	412,692	417,335	647,592
Changes in operating assets and liabilities, excluding effects of business combinations:			
Decrease/(increase) in accounts receivable, net	1,368,081	1,712,904	(431,162)
Decrease in prepaid expenses and other current assets	553,192	349,147	4,866
(Increase)/decrease in other assets	(1,651,599)	(325,769)	2,443,960
(Decrease)/increase in accounts payable	(3,124,486)	171,705	(1,184,539)
Increase in accrued expenses and other liabilities	188,537	2,665,162	39,279
Increase/(decrease) in deferred revenue	2,768,512	458,315	(380,578)
Net cash provided by operating activities	22,681,618	46,965,069	52,512,131
Cash flows from investing activities:			
Capital expenditures	(48,108,176)	(32,478,389)	(31,792,956)
Acquisition of new subsidiaries, net of cash acquired	1,856,230	—	(442,910)
Investments in and advances to affiliates	(665,575)	(172,500)	(359,500)
(Increase)/decrease in restricted cash	—	(1,773,060)	1,773,060
Loans to related party	—	—	(4,030,000)
Acquisition of minority interest in consolidated subsidiaries	(164,590)	(25,565)	(4,960,484)
Other investing activities	(650,729)	(76,891)	(69,427)
Net cash used in investing activities	(47,732,840)	(34,526,405)	(39,882,217)
Cash flows from financing activities:			
Proceeds from issuance of common stock	—	—	30,000,034
Net increase/(decrease) in short-term loans	36,984,965	(228,785,000)	250,000
Proceeds from long-term debt	2,620,000	239,078,000	185,302,000
Principal payments of long-term debt	(2,082,335)	(8,184,980)	(210,097,730)
Principal payments under capital lease obligations	(9,293,487)	(10,843,024)	(11,887,363)
Other financing activities	(738,854)	(3,464,440)	(3,562,724)
Net cash provided by (used in) financing activities	27,490,289	(12,199,444)	(9,995,783)
Net increase in cash and cash equivalents	2,439,067	239,220	2,634,131
Cash and cash equivalents at beginning of year	5,107,691	7,546,758	7,785,978
Cash and cash equivalents at end of year	¥ 7,546,758	¥ 7,785,978	¥ 10,420,109

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Business and Organization

Jupiter Telecommunications Co., Ltd. (“Jupiter”) and its subsidiaries (the “Company”) own and operate cable telecommunication systems throughout Japan and provide cable television services, telephony and high-speed Internet access services (collectively, “Broadband services”). The telecommunications industry in Japan is highly regulated by the Ministry of Internal Affairs and Communications (“MIC”). In general, franchise rights granted by the MIC to the Company’s subsidiaries for operation of cable telecommunications systems in their respective localities are not exclusive. Currently, cable television services account for a majority of the Company’s revenue. Telephony operations accounted for approximately 10%, 13% and 15% of total revenue for the years ended December 31, 2002, 2003 and 2004, respectively. Internet operations accounted for approximately 23%, 24% and 25% of total revenue for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company’s beneficial ownership at December 31, 2004 was as follows:

LMI/ Sumisho Super Media, LLC (“SM”)	65.23%
Microsoft Corporation (“Microsoft”)	19.46%
Sumitomo Corporation (“SC”)	12.25%
Mitsui & Co., Ltd.	1.53%
Matsushita Electric Industrial Co., Ltd.	1.53%

In August 2004, Liberty Media International, Inc. (“LMI”), SC and Microsoft made capital contributions to the Company in the following amounts: LMI: ¥14,065 million for 216,382 shares: SC: ¥9,913 million for 152,505 shares; and Microsoft ¥6,022 million for 92,652 shares. The shares of common stock issued in exchange for the capital contributions were based on fair value at the date of the transaction. As a result of the transaction, their beneficial ownership in the Company increased to 45.45%, 32.03% and 19.46%, respectively. The proceeds from the capital contributions were used to repay subordinated debt owed to each of LMI, SC and Microsoft in the same amounts as contributed by each shareholder respectively (see Note 6).

On December 28, 2004, LMI contributed all of its then 45.45% beneficial ownership interest and SC contributed 19.78% of its then ownership interest in the Company to SM, a company owned 69.7% by LMI and 30.3% by SC. As a result, SM became a 65.23% shareholder of the Company while SC’s direct ownership interest was reduced to 12.25%. SC is obligated to contribute its remaining 12.25% direct ownership interest in the Company to SM within six months of an initial public offering (“IPO”) in Japan by the Company.

The Company has historically relied on financing from its principle shareholders to meet liquidity requirements. However, in December 2004, the Company entered into a new syndicated facility and repaid all outstanding debt with its principal shareholders. For additional information concerning the 2004 refinancing, see Note 6.

Basis of Financial Statements

The Company maintains its books of account in conformity with financial accounting standards of Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”). These adjustments include those related to the scope of consolidation, accounting for business combinations, accounting for income taxes, accounting for leases, accounting for stock-based compensation, revenue recognition of certain revenues, post-retirement benefits, depreciation and amortization and accruals for certain expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

Summary of Significant Accounting Policies

(a) Consolidation Policy

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries which are primarily cable system operators (“SOs”). All significant intercompany balances and transactions have been eliminated. For the consolidated subsidiaries with a negative equity position, the Company has recognized the entire amount of cumulative losses of such subsidiaries regardless of its ownership percentage.

(b) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with an initial maturity of three months or less.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on analysis of certain individual accounts, including claims in bankruptcy.

(d) Investments

For those investments in affiliates in which the Company’s voting interest is 20% to 50% and the Company has the ability to exercise significant influence over the affiliates’ operation and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and adjusted to recognize the Company’s share of the net earnings or losses of its affiliates. Prior to the adoption on January 1, 2002 of Statement of Financial Accounting Standard (“SFAS”) No. 142, *Goodwill and Other Intangible Assets,* the excess of the Company’s cost over its percentage interest in the net assets of each affiliate was amortized, primarily over a period of 20 years. Subsequent to the adoption of SFAS No. 142, such excess is no longer amortized. All significant intercompany profits from these affiliates have been eliminated.

Investments in other securities carried at cost represent non-marketable equity securities in which the Company’s ownership is less than 20% and the Company does not have the ability to exercise significant influence over the entities’ operation and financial policies.

The Company evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, the Company utilizes various information, as available, including cash flow projections, independent valuations, industry multiples and, as applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

(e) Property and Equipment

Property and equipment, including construction materials, are carried at cost, which includes all direct costs and certain indirect costs associated with the construction of cable television transmission and distribution systems, and the costs of new subscriber installations. Depreciation is computed on a straight-line method using estimated useful lives ranging from 10 to 15 years for distribution systems and equipment, from 15 to 60 years for buildings and structures and from 8 to 15 years for support equipment. Equipment under capital leases is stated at the present value of minimum lease payments. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which ranges from 2 to 21 years.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥1,315,484 thousand, ¥2,041,347 thousand and ¥2,558,513 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

During the first quarter of 2000, the Company and its subsidiaries approved a plan to upgrade substantially all of its 450 MHz distribution systems to 750 MHz during the years ending December 31, 2000 and 2001. The Company identified certain electronic components of their distribution systems that were replaced in connection with the upgrade and, accordingly, adjusted the remaining useful lives of such electronics in accordance with the upgrade schedule. The effect of such changes in the remaining useful lives resulted in additional depreciation expense of approximately ¥484 million for the year ended December 31, 2002. Additionally, after giving effect to the accelerated depreciation, the net loss per share increased by approximately ¥(123) per share for the year ended December 31, 2002. Such upgrades had been substantially completed by December 31, 2002.

(f) Goodwill

Goodwill represents the difference between the cost of the acquired cable television companies and amounts allocated to the estimated fair value of their net assets. The Company performs an assessment of goodwill for impairment at least annually, and more frequently if an indicator of impairment has occurred, using a two-step process. The first step requires identification of reporting units and determination of the fair value for each individual reporting unit. The fair value of each reporting unit is then compared to the reporting unit's carrying amount including assigned goodwill. To the extent a reporting unit's carrying amount exceeds its fair value, the second step of the impairment test is performed by comparing the implied fair value of the reporting unit's goodwill to its carrying amount. If the implied fair value of a reporting unit's goodwill is less than its carrying amount, an impairment loss is recorded. The Company performs its annual impairment test on the first day of October in each year. The Company has determined its reporting units to be the same as its reportable segments. The Company had no impairment charges of goodwill for the years ended December 31, 2002, 2003 and 2004.

(g) Long-Lived Assets

The Company and its subsidiaries' long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. The standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company and its subsidiaries adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(h) Other Assets

Other assets include certain development costs associated with internal-use software capitalized, including external costs of material and services, and payroll costs for employees devoting time to the software projects.

These costs are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred. Other assets also include deferred financing costs, primarily legal fees and bank facility fees, incurred to negotiate and secure the facility. These costs are amortized to interest expense using the effective interest method over the term of the facility. For additional information concerning the Company's debt facilities, see Note 6.

(i) Derivative Financial Instruments

The Company uses certain derivative financial instruments to manage its foreign currency and interest rate exposure. The Company may enter into forward contracts to reduce its exposure to short-term (generally no more than one year) movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen. The Company uses interest rate risk management derivative instruments, such as interest rate swap and interest cap agreements, to manage interest costs to achieve an overall desired mix of fixed and variable rate debt. As a matter of policy, the Company does not enter into derivative contracts for trading or speculative purposes.

The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133*. SFAS No. 133, as amended, requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in other comprehensive income until it is recognized in earnings in the same period in which the hedged item affects earnings. The ineffective portion of all hedges will be recognized in current earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge will be recorded each period in current earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is determined that the forecasted hedged transaction will no longer occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment, or (5) management determines that the designation of the derivative as a hedge instrument is no longer appropriate. Ongoing assessments of effectiveness are being made every three months.

The Company had several outstanding forward contracts with a commercial bank to hedge foreign currency exposures related to U.S. dollar-denominated equipment purchases and other firm commitments. As of December 31, 2002, 2003 and 2004, such forward contracts had an aggregate notional amount of ¥1,553,053 thousand, ¥3,134,242 thousand and ¥5,658,147 thousand, respectively, and expire on various dates through December 2005. The forward contracts have not been designated as hedges as they do not meet the effectiveness criteria specified by SFAS No. 133. However, management believes such forward contracts are closely related with the firm commitments designated in U.S. dollars, thus managing associated currency risk. Forward contracts not designated as hedges are marked to market each period. Included in other income, net, in the accompanying consolidated statements of operations are losses on forward contracts not designated as hedges of ¥11,589 thousand, ¥65,195 thousand and ¥72,223 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

In May 2003, the Company entered into several interest rate swap agreements and an interest rate cap agreement to manage variable rate debt as required under the terms of its facility agreement (see Note 6). These interest rate exchange agreements effectively convert ¥60 billion of variable rate debt based on TIBOR into fixed rate debt and mature on June 30, 2009. These interest rate exchange agreements are considered cash flow hedging instruments as they are expected to effectively convert variable interest payments on certain debt instruments into fixed payments. Changes in fair value of these interest rate agreements designated as cash flow hedges are reported in accumulated other comprehensive loss. The amounts will be subsequently reclassified into interest expense as a yield adjustment in the same period in which the related interest on the variable rate debt affects earnings. The counterparties to the interest rate exchange agreements are banks participating in the facility agreement, therefore the Company does not anticipate nonperformance by any of them on the interest rate exchange agreements. In December 2004, the Company entered into a new debt facility, which replaced its former facility (see Note 6). Under the terms of the new facility, the Company was required to cancel certain interest rate swap agreements and an interest rate cap agreement with an aggregate notional amount of ¥24 billion, as the counterparties elected not to participate in the new facility. Such agreements were canceled in January 2005. As a result, these agreements are no longer considered cash flow hedging instruments and their respective fair value changes were reclassified into interest expense, net in the accompanying consolidated statements of operations for the year ended December 31, 2004. The remaining aggregate notional amount of ¥36 billion of interest rate swap agreements have been permitted to be carried over to the new facility as the counterparties are participants in the new facility. The Company has re-designated such interest swap agreements as cash flow hedging instruments.

(j) Severance and Retirement Plans

The Company and its subsidiaries have unfunded noncontributory defined benefit severance and retirement plans which are accounted for in accordance with SFAS No. 87, *Employers' Accounting for Pensions*.

(k) Income Taxes

The Company and its subsidiaries account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Cable Television System Costs, Expenses and Revenues

The Company and its subsidiaries account for costs, expenses and revenues applicable to the construction and operation of cable television systems in accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies*. Currently, there is no significant system that falls in a prematurity period as defined by SFAS No. 51. Operating and programming costs in the Company's consolidated statements of operations include, among other things, cable service related expenses, billing costs, technical and maintenance personnel and utility expenses related to the cable television network.

(m) Revenue Recognition

The Company and its subsidiaries recognize cable television, high-speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed.

The Company and its subsidiaries provide poor reception rebroadcasting services to noncable television viewers suffering from poor reception of television waves caused by artificial obstacles. The Company and its subsidiaries enter into agreements with parties that have built obstacles causing poor reception for construction and maintenance of cable facilities to provide such services to the affected viewers at no cost to them during the agreement period. Under these agreements, the Company and its subsidiaries receive up-front, lump-sum compensation payments for construction and maintenance. Revenues from these agreements have been deferred and are being recognized in income on a straight-line basis over the agreement periods which are generally 20 years. Such revenues are included in revenue — other in the accompanying consolidated statements of operations.

See Note 5 for a description of revenue from affiliates related to construction-related sales and programming fees which are recorded in revenue — other in the accompanying consolidated statements of operations.

(n) Advertising Expense

Advertising expense is charged to income as incurred. Advertising expense amounted to ¥4,425,004 thousand, ¥3,921,229 thousand and ¥2,915,403 thousand and for the years ended December 31, 2002, 2003 and 2004, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(o) Stock-Based Compensation

The Company and its subsidiaries account for stock-based compensation plans to employees using the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB No. 25”) and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB No. 25*. (“FIN No. 44”). As such, compensation expense is measured on the date of grant only if the current fair value of the underlying stock exceeds the exercise price. The Company accounts for its stock-based compensation plans to nonemployees and employees of unconsolidated affiliated companies using the fair market value based method prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force Issue 00-12, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity Method Investee* (“EITF 00-12”). Under SFAS No. 123, the fair value of the stock based award is determined using the Black-Scholes option pricing method, which is remeasured each period end until a commitment date is reached, which is generally the vesting date. The fair value of the subscription rights and stock purchase warrants granted each year was calculated using the Black-Scholes option-pricing model with the following assumptions: no dividends, volatility of 40%, risk-free rate of 3.0% and an expected life of three years. Expense associated with stock-based compensation for certain management employees is amortized on an accelerated basis over the vesting period of the individual award consistent with the method described in FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. Otherwise, compensation expense is generally amortized evenly over the vesting period. Compensation expense is recorded in operating costs and expenses for the Company’s employees and nonemployees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

SFAS No. 123 allows companies to continue to apply the provisions of APB No. 25, where applicable, and provide pro forma disclosure for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25

for stock-based compensation plans to its employees and provide the pro forma disclosure required by SFAS No. 123. The following table illustrates the effect on net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2003 and 2004, if the Company had applied the fair value recognition provisions of SFAS No. 123 (Yen in thousands, except share and per share amounts):

	2002	2003	2004
Net income (loss), as reported	¥ (7,542,676)	¥ 5,351,250	¥10,821,175
Add stock-based compensation expense included in reported net income (loss)	—	—	—
Deduct stock-based compensation expense determined under fair value based method for all awards, net of applicable taxes	(510,246)	(454,172)	(607,655)
Pro forma net income (loss)	¥ (8,052,922)	¥ 4,897,078	¥10,213,520
Basic and diluted per share data:			
Net income (loss) per share, as reported (Yen)	(1,917)	1,214	2,221
Net income (loss) per share, pro forma (Yen)	(2,047)	1,111	2,097

(p) Earnings Per Share

Earnings per share ("EPS") is presented in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. Under SFAS No. 128, basic EPS excludes dilution for potential ordinary shares and is computed by dividing net income (loss) by the weighted average number of ordinary shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Basic and diluted EPS are the same in 2002, 2003 and 2004, as all potential ordinary share equivalents, consisting of stock options, are anti-dilutive.

(q) Segments

The Company reports operating segment information in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 defined operating segments as components of an enterprise about which separate financial information is available that is regularly evaluated by the chief operating decision-maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company has determined that each individual consolidated subsidiary and unconsolidated managed equity affiliate SO is an operating segment because each SO represents a legal entity and serves a separate geographic area. The Company has evaluated the criteria for aggregation of the operating segments under paragraph 17 of SFAS No. 131 and believes it meets each of its respective criteria. Accordingly, management has determined that the Company has one reportable segment, Broadband services.

(r) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant judgments and estimates include derivative financial instruments, depreciation and amortization costs, impairments of property and equipment and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

(s) Recent Accounting Pronouncements

The FASB issued SFAS No. 123 (Revised 2004) (SFAS No. 123R) in December 2004. SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and its related implementation guidance.

SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We have not yet determined the impact SFAS No. 123R will have on our results of operations.

2. Acquisitions

The Company acquired varying interests in cable television companies during the periods presented. The Company utilized the purchase method of accounting for all such acquisitions and, accordingly, has allocated the purchase price based on the estimated fair value of the assets and liabilities of the acquired companies. The assets, liabilities and operations of such companies have been included in the accompanying consolidated financial statements since the dates of their respective acquisitions.

In January 2002, the Company purchased additional shares of its affiliate J-COM Media Saitama during a capital call for ¥500,000 thousand and purchased shares from existing shareholders of its affiliate J-COM Urawa-Yono for ¥10,080 thousand. After the purchases, the Company's equity ownership increased to a 50.2% controlling interest in J-COM Media Saitama and a 50.10% controlling interest in J-COM Urawa-Yono. These transactions have been treated as step-acquisitions. The results of operations for both J-COM Media Saitama and J-COM Urawa-Yono have been included as a consolidated entity from January 1, 2002.

In March 2002, the Company purchased additional shares in its affiliate, @NetHome Co., Ltd ("@NetHome"), from SC at a price per share of ¥55,000 or ¥527,670 thousand and all of the shares held by At Home Asia-Pacific for ¥1.4 billion. After the purchases, the Company had an 87.4% equity interest in @NetHome. The purchases have been accounted for as a step-acquisition. The operations for @NetHome have been included as a consolidated entity from April 1, 2002. In March 2004, the Company purchased from SC the remaining outstanding shares of @NetHome for ¥4,860 million. After the purchase, @NetHome became a wholly owned subsidiary of the Company. The purchase has been accounted for as a step-acquisition. The Company recorded approximately ¥4.0 billion of goodwill for the excess consideration over the fair value of the net assets and liabilities acquired in the 2004 step-acquisition.

In March 2004, the Company purchased a controlling interest in Izumi Otsu from certain of its shareholders. The total purchase price of such Izumi Otsu shares was ¥160,000 thousand and gave the Company a 66.7% interest. The results of Izumi Otsu have been included as a consolidated subsidiary from April 1, 2004. In August 2004, the Company and certain shareholders entered into an agreement and merged Izumi Otsu into the Company's 84.2% consolidated subsidiary, J-COM Kansai. After the merger, the Company has an 84.0% equity interest in J-COM Kansai.

In July 2004, the Company purchased a 100% controlling interest in Cable System Engineering Corporation ("CSE"), whose business is cable network construction and installation. The total purchase price of CSE was ¥577,210 thousand. No goodwill was recognized in connection with this acquisition. The result of operations for CSE have been included from August 1, 2004.

The impact to revenue, net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2003 and 2004, as if the transactions were completed as of the beginning of those years, is not significant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

The aggregate purchase price of the business combinations during the years ended December 31, 2002 and 2004 was allocated based upon fair values as follows (Yen in thousands):

	2002	2004
Cash, receivables and other assets	¥ 7,039,726	¥ 2,073,191
Property and equipment	16,565,501	791,856
Goodwill	3,690,538	4,228,117
Debt and capital lease obligations	(15,881,589)	—
Other liabilities	(6,110,058)	(1,395,471)
	¥ 5,304,118	¥ 5,697,693

3. Investments in Affiliates

The Company's affiliates are engaged primarily in the Broadband services business in Japan. At December 31, 2004, the Company held investments in J-COM Shimonoseki (50.0%), J-COM Fukuoka (45.0%), Jupiter VOD Co. Ltd. (50.0%), Kansai Multimedia Service Co., Ltd. ("Kansai Multimedia") (25.8%), CATV Kobe (20.4%) and Green City Cable TV Corporation (20.0%).

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥730,910 thousand and ¥761,053 thousand of unamortized excess cost of investments over the Company's equity in the net assets of the affiliates. All significant intercompany profits from these affiliates have been eliminated according to the equity method of accounting.

The carrying value of investments in affiliates as of December 31, 2003 and 2004 includes ¥2,019,000 thousand and ¥1,945,000 thousand of short-term loans the Company made to certain managed affiliates. The interest rate on these loans was 3.23% and 2.48% as of December 31, 2003 and 2004.

Condensed financial information of the Company's unconsolidated affiliates at December 31, 2003, and 2004 and for each of the three years ended December 31, 2002, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Combined Financial Position:		
Property and equipment, net	¥ 29,696,602	¥ 29,578,096
Other assets, net	6,201,251	7,545,469
Total assets	¥ 35,897,853	¥ 37,123,565
Debt	¥ 17,998,825	¥ 15,577,345
Other liabilities	16,030,950	17,224,152
Shareholders' equity	1,868,078	4,322,068
Total liabilities and equity	¥ 35,897,853	¥ 37,123,565

	2002	2003	2004
Combined Operations:			
Total revenue	¥ 18,218,205	¥ 19,776,603	¥ 21,784,795
Operating, selling, general and administrative expenses	(13,001,409)	(13,430,881)	(15,080,471)
Depreciation and amortization	(3,180,977)	(3,682,641)	(4,164,827)
Operating income	2,035,819	2,663,081	2,539,497
Interest expense, net	(410,278)	(478,609)	(427,400)
Other expense, net	(558,636)	(1,013,158)	(428,107)
Net income	¥ 1,066,905	¥ 1,171,314	¥ 1,683,990

4. Goodwill and Other Assets

The changes in the carrying amount of goodwill, net, for the years ended December 31, 2003 and 2004 consisted of the following (Yen in thousands):

	2003	2004
Goodwill, net, beginning of year	¥ 139,827,277	¥ 139,853,596
Goodwill acquired during the year	26,319	4,228,117
Initial recognition of acquired tax benefits allocated to reduce goodwill of acquired entities (Note 8)	—	(3,422,995)
Goodwill, net, end of year	¥ 139,853,596	¥ 140,658,718

Other assets, excluding goodwill, at December 31, 2003 and 2004, consisted of the following (Yen in thousands):

	2003	2004
Lease and other deposits	¥ 4,295,947	¥ 4,313,742
Deferred financing costs	3,763,785	3,540,302
Capitalized computer software, net	3,022,557	3,351,115
Long-term loans receivable, net	300,380	270,885
Deferred tax assets	—	1,308,582
Other	1,664,560	1,797,757
Total other assets	¥ 13,047,229	¥ 14,582,383

5. Related Party Transactions

The Company purchases cable system materials and supplies from third-party suppliers and resells them to its subsidiaries and affiliates. The sales to unconsolidated affiliates amounted to ¥3,484,288 thousand, ¥2,888,046 thousand and ¥2,385,495 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

The Company provides programming services to its subsidiaries and affiliates. The revenue from unconsolidated affiliates for such services provided and the related products sold amounted to ¥815,287 thousand, ¥1,092,724 thousand and ¥1,379,744 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

The Company provides management services to its subsidiaries and managed affiliates. Fees for such services related to managed affiliates amounted to ¥390,434 thousand, ¥468,219 thousand and ¥521,670 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue — other in the accompanying consolidated statements of operations.

In July 2002, the Company began providing management services to Chofu Cable Inc. (“J-COM Chofu”), an affiliated company that is 92% jointly owned by LMI, Microsoft and SC. Fees for such services amounted to ¥29,590 thousand, ¥60,882 thousand and ¥87,446 thousand for the years ended December 31, 2002, 2003 and 2004 respectively, and are included in revenue — other in the accompanying consolidated statements of operations. As part of the 2004 refinancing, J-COM Chofu became party to the Company’s new debt facility (see Note 6). At December 31, 2004, the Company had advanced ¥4,030 million of short term loans to J-COM Chofu and the interest rate on these loans were 2.48%.

The Company purchases certain cable television programs from Jupiter Programming Co., Ltd. (“JPC”), an affiliated company jointly owned by SC and a wholly owned subsidiary of LMI. Such purchases, including purchases from JPC’s affiliates, amounted to ¥2,879,616 thousand, ¥3,155,139 thousand and ¥3,915,345 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in operating and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

programming costs in the accompanying consolidated statements of operations. Additionally, the Company receives a distribution fee to carry the Shop Channel, a majority owned subsidiary of JPC, for the greater of a fixed rate per subscriber or a percentage of revenue generated through sales in the Company’s territory. Such fees amounted to ¥614,224 thousand, ¥939,438 thousand and ¥1,063,678 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included as revenue — other in the accompanying consolidated statements of operations.

The Company purchased stock of affiliated companies from SC in the amounts of ¥1,112,750 thousand, ¥0 thousand, and ¥5,091,864 thousand in the years ended December 31, 2002, 2003 and 2004, respectively.

AJCC K.K. (“AJCC”) is a subsidiary of SC and its primary business is the sale of home terminals and related goods to cable television companies. Sumisho Lease Co., Ltd. and Sumisho Auto Leasing Co., Ltd. (collectively “Sumisho leasing”) are a subsidiary and affiliate, respectively, of SC and provide to the Company various office equipment and vehicles. The Company and its subsidiaries’ purchases of such goods, primarily as capital leases, from both AJCC and Sumisho leasing, amounted to ¥10,074,639 thousand, ¥6,087,645 thousand and ¥12,621,284 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company pays monthly fees to its affiliates, @NetHome and Kansai Multimedia, based on an agreed-upon percentage of subscription revenue collected by the Company from its customers for the @NetHome and Kansai Multimedia services. Payments made to @NetHome under these arrangements, prior to it becoming a consolidated subsidiary, amounted to ¥1,585,691 thousand for the years ended December 31, 2002. Payments made to Kansai Multimedia under these arrangements amounted to ¥2,882,494 thousand, ¥3,226,764 thousand and ¥3,380,148 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. Such payments are included in operating and programming costs in the accompanying consolidated statements of operations. In March 2002, @Net Home became a consolidated subsidiary of the Company (see Note 2). Therefore, since April 1, 2002, through @NetHome, the Company receives the monthly fee from its unconsolidated affiliates. Such service fees amounted to ¥480,356 thousand, ¥1,071,891 thousand and ¥1,242,550 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in revenue-subscription fees in the accompanying consolidated statements of operations.

The Company has management service agreements with SC and LMI under which officers and management level employees are seconded from SC and LMI to the Company, whose services are charged as service fees to the Company based on their payroll costs. The service fees paid to SC amounted to ¥571,319 thousand, ¥706,303 thousand and ¥784,122 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. The service fees paid to LMI amounted to ¥761,009 thousand, ¥714,986 thousand and ¥665,354 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. These amounts are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

SC, LMI and Microsoft had long-term subordinated loans to the Company of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. In December 2004, the Company refinanced and replaced these subordinated shareholder loans under a new facility. See Note 6.

The Company pays fees on debt guaranteed by SC, LMI and Microsoft. The guarantee fees incurred were ¥413,128 thousand to SC, ¥361,627 thousand to LMI and ¥285,042 thousand to Microsoft for the year ended December 31, 2002. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMI and ¥51,890 thousand to Microsoft for the year ended December 31, 2003. The guarantee fees incurred were ¥41,071 thousand to SC, ¥41,071 thousand to LMI and ¥16,332 thousand to Microsoft for the year ended December 31, 2004. Such fees are included in interest expense, net-related parties in the accompanying consolidated statements of operations. In December 2004 these guarantees were replaced by a guarantee facility with a syndicate of lenders. See Note 6.

6. Long-term Debt

A summary of long-term debt as of December 31, 2003 and 2004 is as follows (Yen in thousands):

	2003	2004
¥140 billion Facility term loans, due fiscal 2005 — 2009	¥ 53,000,000	¥ —
¥175 billion Facility term loans, due fiscal 2005 — 2011	—	130,000,000
Mezzanine Facility Subordinated loan due fiscal 2012	—	50,000,000
8 yr Shareholder Subordinated loans, due fiscal 2011	117,739,250	—
8 yr Shareholder Tranche B Subordinated loans, due fiscal 2011	32,000,000	—
0% unsecured loans from Development Bank of Japan, due fiscal 2005 — 2019	12,223,720	—
Unsecured loans from Development Bank of Japan, due fiscal 2005 — 2019, interest from 0.65% to 6.8%	3,895,400	—
0% secured loans from Development Bank of Japan, due fiscal 2005 — 2019	5,354,735	15,810,095
Secured loans from Development Bank of Japan, due fiscal 2005 — 2019, interest at 0.95% to 6.8%	—	3,614,200
0% unsecured loans from others, due fiscal 2012	57,090	50,170
Total	224,270,195	199,474,465
Less: current portion	(2,438,480)	(5,385,980)
Long-term debt, less current portion	¥ 221,831,715	¥ 194,088,485

2003 Financing

On January 31, 2003, the Company entered into a ¥140 billion bank syndicated facility for certain of its managed subsidiaries and affiliates (“¥140 billion Facility”). In connection with the ¥140 billion Facility, on February 6, 2003, the Company entered into eight-year subordinated loans with each of SC, LMI and Microsoft (“Principal Shareholders”), which initially aggregated ¥182 billion (“Shareholder Subordinated Loans”).

The ¥140 billion Facility was for the financing of Jupiter, sixteen of its consolidated managed affiliates and one managed affiliate accounted for under the equity method of accounting. The financing was used for permitted general corporate purposes, capital expenditures, financing costs and limited purchase of minority shares and capital calls of the affiliates participating in the ¥140 billion Facility.

The ¥140 billion Facility provided for term loans of up to ¥120 billion and a revolving loan facility up to ¥20 billion with the final maturity of June 30, 2009. ¥32 billion of the total term loan portion of the ¥140 billion Facility was considered provided by the shareholders under the Tranche B Subordinated Loans.

Interest was based on TIBOR, as defined in the ¥140 billion Facility, plus margin which changed based upon a leverage ratio of Total Debt to EBITDA as set forth in the ¥140 billion Facility agreement. At December 31, 2003, the interest rate was 2.83%. The Shareholder Subordinated Loans, which were subordinated to the ¥140 billion Facility, consisted of eight-year subordinated loans and eight-year Tranche B Subordinated Loans. The ¥140 billion Facility had requirements to make mandatory prepayments under specific circumstances as defined in the agreements. Such prepayments are designated as restricted cash on the consolidated balance sheets.

In May 2003, LMI and SC converted ¥32 billion of Shareholder Subordinated Loans for 750,250 shares of common stock of the company. At December 31, 2003, the interest rate was 2.08%.

In December 2003, a consolidated subsidiary of the Company became party to the ¥140 billion Facility. Immediately prior to this transaction, the consolidated subsidiary had outstanding ¥3,686,090 thousand to third-party creditors. In connection with this transaction, a third-party debt holder forgave ¥400,000 thousand of debt owed to it. As a result, the Company recorded a gain of ¥400,000 thousand in other non-operating income in the accompanying consolidated statement of operations for the year ended December 31, 2003. Additionally, the third-party debt holder was issued ¥500,000 thousand of preferred stock of the consolidated subsidiary in exchange for ¥500,000 thousand of debt owed to it (see Note 10). The remaining ¥2,686,090 thousand of third-party debt was repaid from proceeds of the ¥140 billion Facility.

In March 2004, the Company entered into additional shareholder subordinated loans of ¥2,431,000 thousand each with SC and LMI. The aggregate ¥4,862,000 thousand of loan proceeds were used for the purchase of the remaining shares of @NetHome (see Note 2). These additional shareholder subordinated loans had identical terms to the Shareholder Subordinated Loans discussed above.

In August 2004, LMI, SC and Microsoft made a capital contribution to the Company in the aggregate amount of ¥30,000 million. The proceeds of this contribution were used to repay an aggregate of ¥30,000 million of Shareholder Subordinated Loans owed respectively in the same amounts as contributed by LMI, SC and Microsoft (see Note 1).

2004 Refinancing

On December 15, 2004, for the purpose of the refinancing the ¥140 billion Facility, the Company entered into a ¥175 billion senior syndicated facility ("¥175 billion Facility") which consists of a ¥130 billion term loan facility ("Term Loan Facility"), a ¥20 billion revolving facility ("Revolving Facility") and a ¥25 billion guarantee facility ("Guarantee Facility"). Concurrently the Company entered into a ¥50 billion subordinated syndicated loan facility ("Mezzanine Facility"). Consistent with the ¥140 billion Facility, the ¥175 billion Facility will be utilized for the financing of Jupiter, sixteen of its consolidated managed affiliates, one managed affiliate under the equity method accounting and one managed affiliate, which the Company has no equity investment ("Jupiter Combined Group"). On December 21, 2004, the Company made full drawdowns from each of the ¥130 billion Term Loan Facility and the ¥50 billion Mezzanine Facility. The proceeds from the December 2004 drawdown were used to repay all outstanding loans under the ¥140 billion Facility and all outstanding Shareholder Subordinated Loans.

The ¥130 billion Term Loan Facility consists of a five year ¥90 billion Tranche A Term Loan Facility ("Tranche A Facility") and a seven year ¥40 billion Tranche B Term Loan Facility ("Tranche B Facility"). Final maturity dates of the Tranche A Facility and Tranche B Facility are December 31, 2009 and December 31, 2011, respectively. Loan repayment of the Tranche A Facility and the Tranche B Facility commence on September 30, 2005 and March 31, 2009, respectively, each based on a defined rate reduction each quarter thereafter until maturity.

The ¥20 billion Revolving Facility will be available for drawdown until one month prior to its final maturity of December 31, 2009. A commitment fee of 0.50% per annum is payable on the unused available Revolving Facility during its availability period.

The ¥25 billion Guarantee Facility provides for seven years of bank guarantees on loans from the Development Bank of Japan owed by affiliates of the Jupiter Combined Group. The Guarantee Facility commitment reduces gradually according to the amount and schedule as defined in the ¥175 billion Facility agreement until final maturity at December 31, 2011. As of December 31, 2004 the guarantee commitment is ¥25 billion. Such guarantee commitment will be reduced to ¥23.1 billion by December 2005; ¥21.6 billion by December 2006; ¥20.0 billion by December 2007; ¥18.6 billion by December 2008; ¥17.2 billion by December 2009; ¥15.8 billion by December 2010; and to ¥13.2 billion by December 2011. A commitment fee of 0.50% per annum is payable on the unused available Guarantee Facility during its availability period.

Interest on the Tranche A Facility, Tranche B Facility and the Revolving Facility is based on TIBOR, as defined in the agreement, plus the applicable margin. Each facility's applicable margin is reducing based upon a leverage ratio of Senior Debt to EBITDA as such terms are defined in the ¥175 billion Facility agreement. When the leverage ratio is greater than or equal to 4.0:1, the margin on the Tranche A Facility and the Revolving Facility is 1.50% per annum and the margin of the Tranche B Facility ranges from 1.80% to 2.00% per annum; when less than 4.0:1 but greater than or equal to 2.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.38% per annum and the margin of the Tranche B Facility ranges from 1.69% to 1.88% per annum; when less than 2.5:1 but greater than or equal to 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.25% per annum and the margin of the Tranche B Facility ranges from 1.58% to 1.75% per annum; and when less than 1.5:1 the margin on the Tranche A Facility and the Revolving Facility is 1.00% per annum and the margin of the Tranche B Facility ranges from 1.35% to 1.50% per annum. In regards to the fees due on the Guarantee Facility, when the leverage ratio is greater than 4.00:1, the interest rate is 3.00% per annum; when less than 4.00:1 but greater than or equal to 3.75:1 the interest rate is 2.00%; when less than 3.75:1 but greater than or equal to 3.50:1 the interest rate is 1.50%; when less than 3.50:1 but greater than or equal to 3.00:1 the interest rate is 1.00%; when less than 3.00:1 but greater than or equal to 2.00:1 the interest rate is 0.75%; and when less than 2.00:1, the interest rate is 0.50% per annum. As of December 31, 2004 the interest rates for the outstanding Tranche A Facility, Tranche B Facility, and Guarantee Facility, were 1.6%, 1.9%, and 1.0% respectively.

The ¥175 billion Facility has requirements to make mandatory prepayments in the amount equal to (1) 50% of the Group Free Cash Flow, as defined in the agreement, until the later of (a) March 31, 2007 and (b) the first quarter for which the ratio of Senior Debt to EBITDA, as defined in the agreement, is less than 2.50:1.00; (2) 50% of third party contributions received when the ratio of Senior Debt to EBITDA is greater than 4.00:1.00; (3) proceeds from the sale of assets exceeding ¥500 million that are not reinvested within six months; (4) insurance proceeds exceeding ¥500 million that are not used to repair or replace the damaged assets within twelve months; and (5) proceeds of any take-out securities as defined in the ¥175 billion Facility agreement. The ¥175 billion Facility requires the Jupiter Combined Group to comply with various financial covenants, such as Maximum Senior Debt to EBITDA Ratio, Maximum Senior Debt to Combined Total Capital Ratio, Minimum Debt Service Coverage Ratio and Minimum Interest Coverage Ratio as such terms are defined in the ¥175 billion Facility agreement. In addition, the ¥175 billion Facility contains certain limitations or prohibitions on additional indebtedness. Additionally, the ¥175 billion Facility requires the Company to maintain interest hedging agreements on at least 50% of the outstanding amounts under the Tranche A Facility. Due to the ¥175 billion Facility closing on December 15, 2004, the Company was not required to calculate financial covenants for the fiscal year 2004.

The Mezzanine Facility contains a bullet repayment upon final maturity at June 30, 2012. However, in the event of an IPO by the Company, there is a mandatory prepayment of the Mezzanine Facility of 100% from the proceeds of such IPO. Interest on the Mezzanine Facility is based on TIBOR, as defined in the agreement, plus an increasing margin. The initial margin is 3.25% per annum and increases 0.25% each successive three month period from closing up to a maximum margin of 9.00% per annum. The Mezzanine Facility has identical financial covenants as the ¥175 billion Facility.

As of December 31, 2004 the Company had ¥20 billion revolving loans available for immediate borrowing under the ¥175 billion Facility.

Development Bank of Japan Loans

The loans represent institutional loans from the Development Bank of Japan, which have been made available to telecommunication companies operating in specific local areas designated as "Teletopia" by the MIC to facilitate development of local telecommunication network. Requirements to qualify for such financing include use of optical fiber cables, equity participation by local/municipal government and guarantee by third parties, among other things. These loans are obtained by the Company's subsidiaries and were primarily guaranteed, directly or indirectly, by SC, LMI and Microsoft. In connection with the 2004 refinancing described above, the guarantees by SC, LMI and Microsoft have been cancelled and replaced with guarantees pursuant to the Guarantee Facility.

Securities on Long-term Debt

At December 31, 2004, subsidiaries' shares owned by the Company, trademark and franchise rights held by the Company and substantially all equipment held by the Company's subsidiaries were pledged to secure the loans from the Development Bank of Japan and the Company's bank facilities. The aggregate annual maturities of long-term debt outstanding at December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 5,385,980
2006	11,648,720
2007	20,461,660
2008	31,474,610
2009	42,981,060
Thereafter	87,522,435
	¥ 199,474,465

7. Leases

The Company and its subsidiaries are obligated under various capital leases, primarily for home terminals, and other noncancelable operating leases, which expire at various dates during the next seven years. See Note 5 for further discussion of capital leases from subsidiaries and affiliates of SC.

At December 31, 2003 and 2004, the amount of equipment and related accumulated depreciation recorded under capital leases were as follows (Yen in thousands):

	2003	2004
Distribution system and equipment	¥ 45,170,512	¥ 48,061,224
Support equipment and buildings	6,656,913	6,594,499
Less: accumulated depreciation	(22,111,664)	(24,129,460)
Other assets, at cost, net of depreciation	292,511	209,669
	¥ 30,008,272	¥ 30,735,932

Depreciation of assets under capital leases is included in depreciation and amortization in the accompanying consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

Future minimum lease payments under capital leases and noncancelable operating leases as of December 31, 2004 are as follows (Yen in thousands):

Year ending December 31,	Capital Leases	Operating Leases
2005	¥ 10,479,258	¥ 901,131
2006	8,298,826	750,754
2007	5,997,212	626,332
2008	4,102,122	399,496
2009	2,810,622	383,100
More than five years	2,686,635	703,288
Total minimum lease payments	34,374,675	¥ 3,764,101
Less: amount representing interest (rates ranging from 1.10% to 5.99%)	(2,570,124)	
Present value of net minimum payments	31,804,551	
Less: current portion	(9,529,241)	
Noncurrent portion	¥ 22,275,310	

The Company and its subsidiaries occupy certain offices under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2002, 2003 and 2004, totaled ¥4,115,628 thousand, ¥4,134,249 thousand and ¥3,970,228 thousand, respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Also, the Company and its subsidiaries occupy certain transmission facilities and use poles and other equipment under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2002, 2003 and 2004, totaled ¥7,323,538 thousand, ¥8,542,845 thousand and ¥8,943,602 thousand, respectively, and are included in operating costs and programming costs in the accompanying consolidated statements of operations.

8. Income Taxes

The Company and its subsidiaries are subject to Japanese national corporate tax of 30%, an inhabitant tax of 6% and a deductible enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the enterprise tax from 10.08% to 7.2%. The amendments to the tax rates will be effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate will be lowered to approximately 40% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005 for the Company.

All pretax income/loss and related tax expense/benefit are derived solely from Japanese operations. Income tax expense for the years ended December 31, 2002, 2003 and 2004 is as follows (Yen in thousand):

	2002	2003	2004
Current	¥ 256,763	¥ 209,805	¥ 1,812,786
Deferred	—	—	45,591
Income tax expense	¥ 256,763	¥ 209,805	¥ 1,858,377

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

The effective rates of income tax (benefit) expense relating to losses (income) incurred differs from the rate that would result from applying the normal statutory tax rates for the years ended December 31, 2002, 2003 and 2004 is as follows:

	2002	2003	2004
Normal effective statutory tax rate	(42.0)%	42.0%	42.0%
Adjustment to deferred tax assets and liabilities for enacted changes in tax laws and rates	—	—	0.1
Increase/(decrease) in valuation allowance	42.0	(41.2)	(27.4)
Other	3.5	3.0	—
Effective tax rate	3.5%	3.8%	14.7%

The effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Deferred tax assets:		
Operating loss carryforwards	¥ 29,921,448	¥ 21,649,833
Deferred revenue	14,165,581	14,455,010
Lease obligation	12,452,252	12,721,820
Retirement and other allowances	1,390,741	1,459,068
Investment in affiliates	794,896	567,766
Accrued expenses and other	2,485,228	3,978,505
Total gross deferred tax assets	61,210,146	54,832,002
Less: valuation allowance	(45,846,086)	(35,240,909)
Deferred tax assets	15,364,060	19,591,093
Deferred tax liabilities:		
Property and equipment	12,680,631	13,796,923
Tax deductible goodwill	633,155	—
Other	2,050,274	2,416,766
Total gross deferred tax liabilities	15,364,060	16,213,689
Net deferred tax assets	¥ —	¥ 3,377,404

The net changes in the total valuation allowance for the years ended December 31, 2002, 2003 and 2004 were decreases of ¥8,985,905 thousand, ¥6,543,162 thousand and ¥10,605,177 thousand, respectively.

Current deferred tax assets in the amount of ¥2,068,822 thousand are included in prepaid expenses and non-current deferred tax assets in the amount of ¥1,308,582 thousand are included in other in non-current assets in the accompanied consolidated balance sheet at December 31, 2004.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management expects to realize its deferred tax assets net of existing valuation allowance. The Company had ¥343,918 thousand of tax deductible goodwill as of December 31, 2004.

The amount of unrecognized tax benefits at December 31, 2003 and 2004 acquired in connection with business combinations were ¥12,000 million and ¥7,267 million (net of ¥3,423 million recognized during 2004), respectively. If the deferred tax assets are realized or the valuation allowance is reversed, the tax benefit realized is first applied to i) reduce to zero any goodwill related to acquisition, ii) second to reduce to zero other non-current intangible assets related to the acquisition and iii) third to reduce income tax expense. See Note 4.

At December 31, 2004, the Company and its subsidiaries had net operating loss carryforwards for income tax purposes of ¥54,124,581 thousand which were available to offset future taxable income. Net operating loss carryforwards, if not utilized, will expire in each of the next five years as follows (Yen in thousands):

Year ending December 31,		
2005	¥	17,501,242
2006		20,094,037
2007		—
2008		55,494
2009		10,751,591
2010-2011		5,722,217
	¥	54,124,581

9. Severance and Retirement Plans

Under unfunded severance and retirement plans, substantially all full-time employees terminating their employment after the three year vesting period are entitled, under most circumstances, to lump-sum severance payments determined by reference to their rate of pay at the time of termination, years of service and certain other factors. No assumptions are made for future compensation levels as the plans have flat-benefit formulas. As a result, the accumulated benefit obligation and projected benefit obligation are the same. December 31, 2004 was used as the measurement date.

Net periodic cost of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 for the years ended December 31, 2002, 2003 and 2004, included the following components (Yen in thousands):

	2002	2003	2004
Service cost — benefits earned during the year	¥ 205,094	¥ 257,230	¥ 265,608
Interest cost on projected benefit obligation	35,074	40,159	40,120
Recognized actuarial loss	232,507	158,371	463,216
Net periodic cost	¥ 472,675	¥ 455,760	¥ 768,944

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 are as follows (Yen in thousands):

	2003	2004
Change in benefit obligation:		
Benefit obligation, beginning of year	¥ 1,606,371	¥ 2,006,011
Service cost	257,230	265,608
Interest cost	40,159	40,120
Acquisitions (Note 2)	—	30,630
Actuarial loss	158,371	432,586
Benefits paid	(56,120)	(93,288)
Benefit obligation, end of year	¥ 2,006,011	¥ 2,681,667

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES — (Continued)

The weighted-average discount rate used in the determination of projected benefit obligation and net pension cost of the Company and its subsidiaries' plans as of and for the year ended December 31, 2002, 2003, and 2004 is as follows:

	2002	2003	2004
Projected benefit obligation			
Discount rate	2.5%	2.0%	2.0%
Net pension cost			
Discount rate	3.0%	2.0%	2.0%

The estimated future benefit payments are (Yen in thousands):

Estimated Future Benefit Payments		
2005	¥	105,753
2006		116,145
2007		172,494
2008		138,000
2009		167,641
2010 to 2014		996,298
	¥	1,696,331

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit plan. The Company contributions to this plan amounted to ¥324,521 thousand, ¥342,521 thousand and ¥292,546 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in provision for retirement allowance in selling, general and administrative expenses in the accompanying consolidated statements of operations.

10. Redeemable Preferred Stock

On December 29, 2003, in connection with being included as a party to the ¥140 billion Facility, a consolidated subsidiary of the Company issued ¥500,000 thousand of preferred stock to a third-party in exchange for debt owed to that third party. All or a part of the preferred stock can be redeemed after 2010, up to a half of the preceding year's net income, at the holder's demand. The holder of the preferred stock has a priority to receive dividends, however, the amount of such dividends will be decided by the subsidiary's board of directors and such dividend will not exceed ¥1,000 per preferred stock for any fiscal year and will not accumulate.

11. Shareholders' Equity

Dividends

Under the Japanese Commercial Code (the "Code"), the amount available for dividends is based on retained earnings as recorded on the books of the Company maintained in conformity with financial accounting standards of Japan. Certain adjustments not recorded on the Company's books are reflected in the consolidated financial statements for reasons described in Note 1. At December 31, 2004, the accumulated deficit recorded on the Company's books of account was ¥16,024,828 thousand. Therefore, no dividends may be paid at the present time.

The Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings be appropriated to a legal reserve until such reserve and the additional paid-in capital equal 25% of the issued capital. The Code also provides that neither additional paid-in capital nor the legal reserve are to be used for cash dividends, but may be either (i) used to reduce a capital deficit, by resolution of the shareholders; (ii) capitalized, by resolution of the Board of Directors; or (iii) used for purposes other than those provided in (i) and (ii), such as refund made to shareholders or acquisition of treasury stocks, but only up to an amount equal to the additional paid-in capital and the legal reserve less 25% of the issued capital, by resolution of the shareholders. The Code provides that at least one-half of the issue price of new shares be included in capital.

Stock-Based Compensation Plans

The Company maintains subscription-rights option plans and stock purchase warrant plans for certain directors, corporate auditors and employees of the Company's consolidated managed franchises and to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other non-employees (collectively the "Jupiter Option Plans"). The Company's board of directors and shareholders approved the grant of the Company's ordinary shares at an initial exercise price of ¥92,000 per share. The exercise price is subject to adjustment upon an effective IPO to the lower of ¥92,000 per share or the IPO offering price.

Under Jupiter Option Plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations and the subscription rights will not be exercisable until the Company's ordinary shares are registered with the Japan Securities Dealers Association or listed on a stock exchange. Non-management employees will, unless the grant agreement provides otherwise, vest in two years from date of grant. Management employees will, unless the grant agreement provides otherwise, vest in four equal installments from date of grant. Options under the Jupiter Option Plans generally expire 10 years from date of grant, currently ranging from August 23, 2010 to August 23, 2012.

The Company has accounted for awards granted to the Company's and its consolidated managed franchises' directors, corporate auditors and employees under APB No. 25 and FIN No. 44. Based on the Company's estimated fair value per ordinary share, there was no intrinsic value at the date of grant under the Jupiter Option Plans. As the exercise price at the date of grant is uncertain, the Jupiter Option Plans are considered variable awards. Under APB No. 25 and FIN 44, variable awards will have stock compensation recognized each period to the extent the market value of the ordinary shares granted exceeds the exercise price. The Company will be subject to variable accounting for grants to employees under the Jupiter Option Plans until all options granted are exercised, forfeited, or expired. At December 31, 2002, 2003 and 2004, the market value of the Company's ordinary shares did not exceed the exercise price and no compensation expense was recognized.

The Company has accounted for awards granted to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and to other non-employees, in accordance with SFAS No. 123 and EITF 00-12. As a result of cancellations, options outstanding to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and to other non-employees were 23,338 ordinary shares, 21,916 ordinary shares and 11,476 ordinary shares at December 31, 2002, 2003 and 2004, respectively. The Company recorded compensation expense related to the directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other non-employees of ¥64,058 thousand, ¥117,359 thousand and ¥93,484 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, which has been included in selling, general and administrative expense for the Company's non-employees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

The following table summarizes activity under the Jupiter Option Plans:

	2002	2003	2004
Outstanding at beginning of the year	132,712	159,004	191,764
Granted	30,576	41,958	29,730
Canceled	(4,284)	(9,198)	(8,418)
Outstanding at end of the year	159,004	191,764	213,076
Weighted average exercise price	¥ 92,000	¥ 92,000	¥ 92,000
Weighted average remaining contractual life	8.0 years	7.4 years	6.6 years
Options exercisable, end of period	—	—	—
Weighted average fair value of options granted	¥ 14,604	¥ 18,340	¥ 24,545

12. Fair Value of Financial Instruments

For financial instruments other than long-term loans, lease obligations and interest rate swap agreements, the carrying amount approximates fair value because of the short maturity of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt and capital lease obligations at December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	¥ 224,270,195	¥ 220,114,532	¥199,474,465	¥199,127,222
Lease obligation	31,130,629	32,328,048	31,804,551	30,125,734
Interest rate swap agreements	694,745	694,745	8,204	8,204

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

	2002	2003	2004
		(Yen in thousands)	
Cash paid during the year for:			
Interest	¥ 4,696,332	¥ 4,408,426	¥ 8,588,285
Income tax	¥ —	¥ 378,116	¥ 323,144
Cash acquisitions of new subsidiaries:			
Fair value of assets acquired	¥ 20,135,417	¥ —	¥ 1,688,442
Liabilities assumed	21,991,647	—	1,245,532
Cash paid, net of cash acquired	¥ (1,856,230)	¥ —	¥ 442,910
Property acquired under capital leases during the year	¥ 10,990,909	¥ 6,057,250	¥ 12,561,285
Conversion of long-term debt into equity	¥ —	¥ 32,260,750	¥ —

14. Commitments

In connection with the September 1, 2000 acquisition of Titus Communications Corporation ("Titus"), Microsoft and the Company entered into a gain recognition agreement with respect to the Titus shares and assets acquired. The Company agreed not to sell during any 18-month period, without Microsoft consent, any shares of Titus, or sell any of Titus' assets, valued at $35 million or more, in a transaction that would result in taxable income to Microsoft. Microsoft will retain this consent right until the earlier of June 30, 2006 or the date Microsoft owns less than 5% of the Company's ordinary shares and Microsoft has sold, in taxable transactions, 80% of the Company's ordinary shares issued to it in connection with the Titus acquisition.

The Company has guaranteed payment of certain bank loans for its equity method affiliate investee, CATV Kobe, and its cost method investee Bay Communications Inc. The guarantees are based on an agreed-upon proportionate share of the bank loans among certain of the entities' shareholders, considering each of their respective equity interest. The term of the guarantee ranges from 5 to 12 years and the aggregate guaranteed amounts were ¥796,233 thousand, ¥722,531 thousand and ¥179,072 thousand as of December 31, 2002, 2003 and 2004, respectively. Management believes that the likelihood the Company would be required to perform or otherwise incur any significant losses associated with any of these guarantees is remote.

15. Subsequent Events

On February 9, 2005, the Company entered into a share purchase agreement to purchase from Microsoft, LMI, and SC all of their interest in J-COM Chofu, as well as all of the equity interest owned by Microsoft in Tu-Ka Cellular Tokyo, Inc. and Tu-Ka Cellular Tokai, Inc. ("Tu-Ka") on or about February 25, 2005. The Company will pay approximately $24 million (approximately ¥2,500 million) to Microsoft, approximately ¥972 million to LMI and approximately ¥940 million to SC for their respective Chofu or Tu-Ka shares. Consideration for J-COM Chofu shares will be in cash at closing, and the Tu-Ka shares will be transferred in exchange for a non-interest-bearing promissory note to Microsoft that is payable 5 business days after a successful IPO in Japan by the Company.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Jupiter Programming Co. Ltd.:

We have audited the accompanying consolidated balance sheets of Jupiter Programming Co. Ltd. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG AZSA & Co.

Tokyo, Japan
March 4, 2005

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JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2004

	2003	2004
	(Yen in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents:		
Related party	¥ 2,350,000	¥ 3,100,000
Other	2,554,768	2,252,611
Accounts receivable (less allowance for doubtful accounts of ¥10,618 thousand in 2003 and ¥7,723 thousand in 2004):		
Related party	307,160	380,826
Other	3,036,190	4,298,811
Retail inventories	2,235,952	2,999,404
Program rights and language versioning, net (Note 3)	646,758	599,480
Deferred income taxes (Note 13)	1,165,550	1,334,560
Prepaid and other current assets	378,606	401,840
Total current assets	12,674,984	15,367,532
Investments (Note 4)	3,359,563	6,929,961
Property and equipment, net (Note 5)	2,012,286	5,327,068
Software development costs, net (Note 6)	1,450,388	1,902,244
Program rights and language versioning, excluding current portion, net (Note 3)	140,372	86,289
Goodwill (Note 8)	188,945	470,131
Other intangible assets, net (Note 7)	59,393	251,959
Deferred income taxes (Note 13)	236,975	357,606
Other assets, net	506,321	680,365
Total assets	¥ 20,629,227	¥ 31,373,155

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS — (Continued)

	2003	2004
	(Yen in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt (Note 12)	¥ 46,000	¥ —
Obligations under capital leases, current installments (related party) (Note 11)	329,764	290,031
Accounts payable:		
Related party	485,416	557,851
Other	3,722,456	4,848,307
Accrued liabilities		
Related party	232,172	276,938
Other	1,228,563	1,515,453
Income taxes payable	1,516,200	2,191,203
Advances from affiliate	—	938,000
Other current liabilities	517,910	512,501
Total current liabilities	8,078,481	11,130,284
Long-term debt (Note 12):		
Related party	2,016,000	1,000,000
Other	4,000,000	4,000,000
Obligations under capital leases, excluding current installments (related party) (Note 11)	174,946	823,170
Accrued pension and severance cost (Note 14)	216,611	284,796
Deferred income taxes (Note 13)	—	81,380
Total liabilities	14,486,038	17,319,630
Minority interests	1,539,900	3,055,893
Shareholders' equity (Note 15):		
Common stock, no par value; 2003 — authorized 450,000 shares; issued and outstanding 336,680 shares		
2004 — authorized 460,000 shares; issued and outstanding 360,680 shares	16,834,000	11,434,000
Additional paid-in capital	—	6,788,054
Accumulated deficit	(12,230,711)	(7,207,717)
Accumulated other comprehensive loss	—	(16,705)
Total shareholders' equity	4,603,289	10,997,632
Total liabilities and shareholders' equity	¥ 20,629,227	¥ 31,373,155

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2002, 2003 and 2004

	2002 (unaudited)	2003	2004
		(Yen in thousands)	
Revenues:			
Retail sales, net	¥ 27,432,871	¥ 38,699,329	¥ 50,010,854
Television programming revenue:			
Related party	1,457,731	1,655,215	1,762,782
Other	4,247,036	5,802,030	6,664,584
Services and other revenue:			
Related party	524,849	755,244	866,157
Other	634,336	906,453	1,176,418
Total revenues	34,296,823	47,818,271	60,480,795
Operating costs and expenses:			
Cost of retail sales:			
Related party	1,251,413	1,597,880	2,212,430
Other	15,141,176	21,658,902	28,038,763
Cost of programming and distribution:			
Related party	851,475	2,487,545	2,742,401
Other	5,417,193	6,271,783	7,482,238
Selling, general and administrative expenses:			
Related party	895,979	943,439	1,318,449
Other	6,728,610	8,532,952	10,084,322
Depreciation and amortization	1,107,040	1,210,163	1,380,432
Total operating expenses	31,392,886	42,702,664	53,259,035
Operating income	2,903,937	5,115,607	7,221,760
Other income (expense):			
Interest expense:			
Related party	(77,899)	(60,073)	(45,258)
Other	(74,482)	(66,204)	(77,245)
Foreign exchange (loss) gain	(309,017)	(141,368)	126,572
Equity in (losses) income of equity method affiliates (Note 4)	(163,758)	(64,472)	22,888
Other (expense) income, net	(214,087)	9,763	(9,241)
Total other (expense) income	(839,243)	(322,354)	17,716
Income before income taxes and minority interests	2,064,694	4,793,253	7,239,476
Income tax expense (Note 13)	(703,947)	(1,519,225)	(2,951,446)
Minority interests in earnings, net of tax	(343,027)	(608,738)	(1,077,972)
Net income	¥ 1,017,720	¥ 2,665,290	¥ 3,210,058

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
Years ended December 31, 2002, 2003 and 2004

	2002 (unaudited)	2003	2004
		(Yen in thousands)	
Common stock (Note 15):			
Balance at beginning of year	¥ 16,834,000	¥ 16,834,000	¥ 16,834,000
Transfer from common stock	—	—	(8,400,000)
Issuance of common stock	—	—	3,000,000
Balance at end of year	16,834,000	16,834,000	11,434,000
Additional paid-in capital (Note 15):			
Balance at beginning of year	—	—	—
Transfer from common stock	—	—	6,587,064
Issuance of common stock	—	—	3,000,000
Carryover basis adjustment related to LJS acquisition (Note 2)	—	—	(2,799,010)
Balance at end of year	—	—	6,788,054
Accumulated deficit:			
Balance at beginning of year	(15,913,721)	(14,896,001)	(12,230,711)
Transfer from common stock	—	—	1,812,936
Net income	1,017,720	2,665,290	3,210,058
Balance at end of year	(14,896,001)	(12,230,711)	(7,207,717)
Accumulated other comprehensive income:			
Balance at beginning of year	—	—	—
Unrecognized losses on derivative instruments (Note 9):			
Unrealized holding losses arising during the year, net of tax benefit, ¥11,460 thousand in 2004	—	—	(16,705)
Balance at end of year	—	—	(16,705)
Treasury stock at cost:			
Balance at beginning of year	—	—	—
Redemption of common stock, to be held as treasury stock (Note 15)	—	—	(6,000,000)
Issuance of treasury stock related to LJS acquisition (Note 2)	—	—	6,000,000
Balance at end of year	—	—	—
Total shareholders' equity	¥ 1,937,999	¥ 4,603,289	¥ 10,997,632
Comprehensive income:			
Net income for the year	¥ 1,017,720	¥ 2,665,290	¥ 3,210,058
Other comprehensive loss for the year, net of tax benefit, ¥11,460 thousand in 2004	—	—	(16,705)
Total comprehensive income	¥ 1,017,720	¥ 2,665,290	¥ 3,193,353

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2003 and 2004

	2002 (unaudited)	2003	2004
		(Yen in thousands)	
Cash flows from operating activities:			
Net income	¥ 1,017,720	¥ 2,665,290	¥ 3,210,058
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,107,040	1,210,163	1,380,432
Amortization of program rights and language versioning	1,298,054	1,570,670	1,732,435
Provision for doubtful accounts	1,501	1,975	(3,519)
Equity in losses (income) of equity method affiliates	163,758	64,472	(22,888)
Write-down of cost method investment	215,650	—	—
Deferred income taxes	(536,017)	(553,039)	(278,181)
Minority interest in earnings	343,027	608,738	1,077,972
Changes in assets and liabilities, net of effects of acquisitions:			
Purchase of program rights and language versioning	(1,433,219)	(1,608,392)	(1,631,074)
Increase in accounts receivable	(515,809)	(740,650)	(1,307,561)
(Increase) decrease in retail inventories, net	(777,383)	252,870	(763,453)
Increase (decrease) in accounts payable	1,242,235	777,510	883,283
Increase in accrued liabilities	169,642	425,674	263,015
Increase in income taxes payable	939,964	369,587	674,288
Other, net	457,341	210,947	(22,218)
Net cash provided by operating activities	3,693,504	5,255,815	5,192,589
Cash flows from investing activities:			
Capital expenditures	(1,378,218)	(1,299,228)	(3,886,668)
Acquisition of subsidiary, net of cash acquired	(188,844)	—	(391,887)
Investments in affiliates	(626,050)	(1,259,945)	(748,500)
Other, net	(113,998)	4,500	—
Net cash used in investing activities	(2,307,110)	(2,554,673)	(5,027,055)
Cash flows from financing activities:			
Proceeds (repayments) on short-term debt	—	46,000	(46,000)
Proceeds from advances from affiliate	—	—	938,000
Proceeds from issuance of long-term debt	60,000	4,040,000	—
Principal payments on long-term debt	—	(4,000,000)	(176,000)
Principal payments on obligations under capital leases	(527,935)	(460,262)	(429,014)
Proceeds from issuance of common stock	—	—	6,000,000
Payments to acquire treasury stock	—	—	(6,000,000)
Net cash used in financing activities	(467,935)	(374,262)	286,986
Net effect of exchange rate changes on cash and cash equivalents	(25,895)	(23,095)	(4,677)
Net increase in cash and cash equivalents	892,564	2,303,785	447,843
Cash and cash equivalents at beginning of year	1,708,419	2,600,983	4,904,768
Cash and cash equivalents at end of year	¥ 2,600,983	¥ 4,904,768	¥ 5,352,611
Supplemental information:			
Cash paid during the year for:			
Income taxes	¥ 299,999	¥ 1,702,678	¥ 2,551,301
Interest	152,381	126,277	90,711
Acquisition of BBF (Note 2)			
Fair value of assets acquired (including cash acquired of ¥158,113 thousand)	—	—	705,657
Fair value of liabilities assumed	—	—	(87,657)
Accrued estimated additional purchase consideration	—	—	(68,000)
Non-cash activities:			
Assets acquired under capital leases	5,457	142,644	1,037,505
Acquisition of LJS through issuance of treasury stock (Note 2)	—	—	3,200,990
Elimination of long-term loan from LJS	—	—	840,000

See accompanying notes to consolidated financial statements.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business and Summary of Significant Accounting Policies and Practices

(a) Description of Business

Jupiter Programming Co. Ltd. (the “Company”) and its subsidiaries (hereafter collectively referred to as “JPC”) invest in, develop, manage and distribute television programming to cable and satellite systems in Japan. Jupiter Shop Channel Co., Ltd (“Shop Channel”), through which JPC markets and sells a wide variety of consumer products and accessories, is JPC’s largest channel in terms of revenue, comprising approximately 80%, 81%, and 83%, of total revenues for the years ended December 31, 2002, 2003 and 2004, respectively. JPC’s business activities are conducted in Japan and serve the Japanese market.

The Company is owned 50% by Liberty Media International, Inc. (“LMI”) through its wholly owned subsidiaries Liberty Programming Japan, Inc. (43%) and Liberty Programming Japan II LLC (7%), and 50% by Sumitomo Corporation. The Company was incorporated in 1996 in Japan under the name Kabushiki Kaisha Jupiter Programming, Jupiter Programming Co. Ltd. in English.

(b) Basis of Consolidated Financial Statements

The consolidated statements of operations, shareholders’ equity and comprehensive income and cash flows for the year ended December 31, 2002, as well as the related footnote disclosures for that year, are unaudited. These consolidated financial statements for 2002 have been prepared on a consistent basis with the 2003 and 2004 consolidated financial statements and reflect all adjustments that in the opinion of management are necessary to present the results of operations and cash flows for 2002 in accordance with the accounting principles generally accepted in the United States of America.

The Company and its subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan. The consolidated financial statements presented herein have been prepared in a manner and reflect certain adjustments that are necessary to conform them to accounting principles generally accepted in the United States of America. The major areas requiring such adjustment are accounting for derivative instruments and hedging activities, accounting for assets held under finance lease arrangements, accounting for goodwill and other intangible assets, employers’ accounting for pensions, accounting for compensated absence, accounting for deferred taxes, accounting for cooperative marketing arrangements and certain customer discounts, and accounting for the non-cash contribution of Liberty J Sports, Inc., from LMI.

(c) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and all of its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

JPC accounts for investments in variable interest entities in accordance with the provisions of the Revised Interpretation of the FASB Interpretation (“FIN”) No. 46 “Consolidation of Variable Interest Entities”, issued in December 2003. The Revised Interpretation of FIN No. 46 provides guidance on how to identify a variable interest entity (“VIE”), and determines when the assets, liabilities, non-controlling interests, and results of operations of a VIE must be included in a company’s consolidated financial statements. A company that holds variable interests in an entity is required to consolidate the entity if the company’s interest in the VIE is such that the company will absorb a majority of the VIE’s expected losses and/or receive a majority of the entity’s expected residual returns, if any. VIEs created after December 31, 2003 must be accounted for under FIN No. 46R. For nonpublic companies, FIN No. 46R must be applied to all VIEs created before January 1, 2004 that are subject to this Interpretation by the beginning of the first annual period beginning after December 15, 2004. There has been no material effect to JPC’s consolidated financial statements from potential VIEs entered into after December 31, 2003 and there was no impact from the adoption of the deferred provisions effective January 1, 2005.

(d) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with an initial maturity of three months or less from the date of purchase.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on historical bad debt experience and includes estimated uncollectible amounts based on an analysis of certain individual accounts, including claims in bankruptcy.

(f) Retail Inventories

Retail Inventories, consisting primarily of products held for sale on Shop Channel, are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method.

(g) Program Rights and Language Versioning

Rights to programming acquired for broadcast on the programming channels and language versioning are stated at the lower of cost and net realizable value. Program right licenses generally state a fixed time period within which a program can be aired, and generally limit the number of times a program can be aired. The licensor retains ownership of the program upon expiration of the license. Programming rights and language versioning costs are amortized over the license period for the program rights based on the nature of the contract or program. Where airing runs are limited, amortization is generally based on runs usage, where usage is unlimited, a straight line basis is used as an estimate of actual usage for amortization purposes. Certain sports programs are amortized fully upon first airing. Such amortization is included in programming and distribution expense in the accompanying consolidated statements of operations.

The portion of unamortized program rights and language versioning costs expected to be amortized within one year is classified as a current asset in the accompanying consolidated balance sheets.

(h) Investments

For those investments in affiliates in which JPC's voting interest is 20% to 50% and JPC has the ability to exercise significant influence over the affiliates' operations and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and is adjusted to recognize JPC's share of the net earnings or losses of its affiliates. JPC recognizes its share of losses of an equity method affiliate until its investment and net advances, if any, are reduced to zero and only provides for additional losses in the event that it has guaranteed obligations of the equity method affiliate or is otherwise committed to provide further financial support.

The difference between the carrying value of JPC's investment in the affiliate and the underlying equity in the net assets of the affiliate is recorded as equity method intangible assets where appropriate and amortized over a relevant period of time, or as residual goodwill. Equity method goodwill is not amortized but continues to be reviewed for impairment in accordance with APB No. 18, which requires that an other than temporary decline in value of an investment be recognized as an impairment loss.

Investments in other securities carried at cost represent non-marketable equity securities in which JPC's ownership is less than 20% and JPC does not have the ability to exercise significant influence over the entities' operation and financial policies.

JPC evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, JPC utilizes various sources of information, as available, including cash flow projections, independent valuations and, as applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to income is recorded for the loss, and a new cost basis in the investment is established.

(i) Derivative Financial Instruments

Under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in income in the period of change.

JPC uses foreign exchange forward contracts to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JPC enters into these contracts to hedge its U.S. dollar denominated net monetary exposures. Hedges relating to purchase commitments for contracted programming rights and other contract costs may qualify for hedge accounting under the hedging criteria specified by SFAS No. 133. However prior to January 1, 2004, JPC elected not to designate any qualifying transactions as hedges. For certain qualifying transactions entered into since January 1, 2004, JPC has designated the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss. For JPC's foreign exchange forward contracts that do not qualify for hedge accounting under the hedging criteria specified by SFAS No. 133, changes in the fair value of derivatives are recorded in the consolidated statement of operations in the period of the change.

JPC does not, as a matter of policy, enter into derivative transactions for the purpose of speculation.

(j) Property and Equipment

Property and equipment are stated at cost.

Depreciation and amortization is generally computed using the straight line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	2-20 years
Leasehold and building improvements	3-18 years
Equipment and vehicles	2-15 years
Buildings	37-50 years

Equipment under capital leases is initially stated at the present value of minimum lease payments. Equipment under capital leases is amortized using the straight line method over the shorter of the lease term and the estimated useful lives of the respective assets, which generally range from three to nine years.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(k) Software Development Costs

JPC capitalizes certain costs incurred to purchase or develop software for internal use. Costs incurred to develop software for internal use are expensed as incurred during the preliminary project stage, including costs associated with making strategic decisions and determining performance and system requirements regarding the project, and vendor demonstration costs. Labor costs incurred subsequent to the preliminary project stage through implementation are capitalized. JPC also expenses costs incurred for internal use software projects in the post implementation stage such as costs for training and maintenance. The capitalized cost of software is amortized straight-line over the estimated useful life, which is generally two to five years.

(l) Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In June 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

JPC performs its annual impairment test for goodwill and indefinite-life intangible assets at the end of each year. JPC completed its annual impairment tests at December 31, 2002, 2003 and 2004, respectively, with no indication of impairment identified.

(m) Long-Lived Assets and Long-Lived Assets to Be Disposed Of

JPC accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined by independent third party appraisals, projected discounted cash flows, or other valuation techniques as appropriate.

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations.” The standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. JPC adopted SFAS No. 143 on January 1, 2003 and the adoption did not have a material effect on its results of operations, financial position or cash flows.

(n) Accrued Pension and Severance Costs

The Company and certain of its subsidiaries provide a Retirement Allowance Plan (“RAP”) for eligible employees. The RAP is an unfunded retirement allowance program in which benefits are based on years of service which in turn determine a multiple of final monthly compensation. JPC accounts for the RAP in accordance with the provisions of SFAS No. 87, “Employers’ Accounting for Pensions”.

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In addition, JPC employees participate in an Employees' Pension Fund ("EPF") Plan. The EPF Plan is a multi-employer plan consisting of approximately 120 participating companies, mainly affiliates of Sumitomo Corporation. The plan is composed of substitutional portions based on the pay-related part of the old age pension benefits prescribed by the Welfare Pension Insurance Law in Japan, and corporate portions based on contributory defined benefit pension arrangements established at the discretion of the Company and its subsidiaries. Benefits under the EPF Plan are based on years of service and the employee's compensation during the five years before retirement.

The assets of the EPF Plan are co-mingled and no assets are separately identifiable for any one participating company. JPC accounts for the EPF Plan in accordance with the provisions of SFAS No. 87, governing multi-employer plans. Under these provisions, JPC recognizes a net pension expense for the required contribution for each period and recognizes a liability for any contributions due but unpaid at the end of each period. Any shortfalls in plan funding are charged to participating companies on a 'share-of-contribution' basis through 'special contributions' spread over a period of years determined by the EPF Plan as being appropriate.

(o) Revenue Recognition

Retail sales. Revenue from sales of products by Shop Channel is recognized when the products are delivered to customers, which is when title and risk of loss transfers. Shop Channel's retail sales policy allows merchandise to be returned at the customers' discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

Television Programming Revenue. Television programming revenue includes subscription and advertising revenue.

Subscription revenue is recognized in the periods in which programming services are provided to cable and satellite subscribers. JPC's channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual subscribers pay a monthly fee for programming channels under the terms of rolling one-month subscription contracts. Cable service providers generally pay a per-subscriber fee for the right to distribute JPC's programming on their systems under the terms of generally annual distribution contracts. Subscription revenue is recognized net of satellite platform commissions and certain cooperative marketing and advertising funds paid to cable system operators. Satellite platform commissions for the years ended December 31, 2002, 2003 and 2004 were ¥843,335 thousand, ¥1,580,945 thousand and ¥1,639,055 thousand, respectively. Cooperative marketing and advertising funds paid to cable system operators for the years ended December 31, 2002, 2003 and 2004 were ¥80,289 thousand, ¥174,432 thousand and ¥225,572 thousand, respectively.

The Company generates advertising revenue on all of its programming channels except Shop Channel. Advertising revenue is recognized, net of agency commissions, when advertisements are broadcast on JPC's programming channels.

Services and Other Revenue. Services and other revenue mainly comprises cable and advertising sales fees and commissions, and technical broadcast facility and production services provided by the Company and certain subsidiaries, and is recognized in the periods in which such services are provided to customers.

(p) Cost of Retail Sales

Cost of retail sales consists of the cost of products marketed to customers by Shop Channel, including write-downs for inventory obsolescence, shipping and handling costs and warehouse costs. Product costs are recognized as cost of retail sales in the accompanying consolidated statements of operations when the products are delivered to customers and the corresponding revenue is recognized.

(q) Cost of Programming and Distribution

Cost of programming and distribution consists of costs incurred to acquire or produce programs airing on the channels distributed to cable and satellite subscribers. Distribution costs include the costs of delivering the programming channels via satellite, including the costs incurred for uplink services and use of satellite transponders, and payments made to cable and satellite platforms for carriage of Shop Channel.

(r) Advertising Expense

Advertising expense is recognized as incurred and is included in selling, general and administrative expenses or, if appropriate, as a reduction of subscription revenue. Cooperative marketing costs are recognized as an expense to the extent that an identifiable benefit is received and the fair value of the benefit can be reasonably measured, otherwise as a reduction of subscription revenue. Advertising expense included in selling, general and administrative expenses for the years ended December 31, 2002, 2003 and 2004 was ¥1,062,757 thousand, ¥1,003,836 thousand and ¥1,333,596 thousand, respectively.

(s) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(t) Foreign Currency Transactions

Assets and liabilities denominated in foreign currencies are translated at the applicable current rates on the balance sheet dates. All revenue and expenses denominated in foreign currencies are converted at the rates of exchange prevailing when such transactions occur. The resulting exchange gains or losses are reflected in other income (expense) in the accompanying consolidated statements of operations.

(u) Use of Estimates

Management of JPC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, retail inventories, investments, deferred tax assets, retail sales returns, and obligations related to employees' retirement plans. Actual results could differ from estimates.

(v) New Accounting Standards

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs-an amendment of ARB No. 43." This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "... under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges... ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during annual periods beginning after June 15, 2005. JPC does not expect the adoption of this statement will have a material effect on its consolidated financial statements.

(w) Reclassification

Certain prior year amounts have been reclassified for comparability with the current year presentation.

(2) Acquisitions

On May 1, 2002, JPC acquired 100% of the outstanding common stock of Misawa Satellite Broadcasting Ltd. ("MSB"), a television programming company. The aggregate purchase price was ¥188,844 thousand and was paid in cash. The acquisition was accounted for as a purchase. On January 1, 2003, JPC merged the business operations of MSB with its wholly-owned subsidiary, Jupiter Satellite Broadcasting Co., Ltd. MSB operated Home Channel and as a result of the acquisition, JPC is expected to increase direct-to-home revenue from the packages in which Home Channel was carried. The results of operations of MSB are included in the accompanying consolidated statements of operations from May 1, 2002 onward. Goodwill from the acquisition of MSB is not deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition of MSB (Yen in thousands):

Current assets	¥	139,787
Goodwill		183,655
Total assets acquired		323,442
Current liabilities assumed		(134,598)
Net assets acquired	¥	188,844

In addition to the goodwill recognized from the MSB transaction, ¥7,827 thousand of other goodwill was recorded in 2002.

In April 2004, JPC acquired all of the issued and outstanding common stock of Liberty J Sports, Inc. ("LJS") from LMI, in exchange for 24,000 shares of JPC's common stock held in treasury having a fair value, as determined by independent appraisal, of ¥250,000 per share. The aggregate purchase price amounted to ¥6,000,000 thousand. Immediately prior to the acquisition, LJS held 33.3% of the issued and outstanding shares of voting common stock of Jupiter Sports, Inc., with JPC holding the remaining 66.7%. Jupiter Sports Inc. is a holding company with its only principal asset, an investment, representing approximately 42.8% of the issued and outstanding voting common stock, in JSports Broadcasting Corporation ("JSB"). JSB is a sports channel broadcasting company currently operating three channels of various sports related contents. Jupiter Sports Inc. accounts for its investment in JSB using the equity method of accounting as it is able to exercise significant influence over the operations of JSB. As a result of the acquisition of LJS, JPC has increased its indirect ownership in JSB from 28.5% to 42.8%. Upon consummation of the acquisition, LJS was converted to a limited liability company with the Certificate of Conversion filed with the Secretary of State of Delaware, and renamed J Sports LLC.

The acquisition was consummated in concert with a series of capital transactions as described in Note 15 to the consolidated financial statements.

The Company has accounted for the acquisition to the extent of the ¥3,000,000 thousand cash paid to LMI in an earlier redemption of shares of common stock (see Note 15) in a manner similar to a partial step acquisition, reflecting the culmination of an earnings process on the part of LMI. Accordingly, the excess of

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¥3,000,000 thousand over 50% of the fair value of the assets acquired and liabilities assumed with respect to the underlying investment in JSB has been recorded as a component of JPC's investment in JSB and accordingly has been classified as equity method goodwill. Management has determined that the fair value of the assets acquired and liabilities assumed approximated their respective carrying values at the date of acquisition, and that there were no material intangible assets applicable to the underlying investment in JSB. The balance of the underlying investment acquired in JSB has been accounted for at historical cost using carryover basis with the difference of ¥3,000,000 thousand over such historical cost amount being reflected as a deduction from additional paid in capital. Goodwill from the acquisition is not deductible for tax purposes.

The following table summarizes the allocation of the acquisition consideration (Yen in thousands):

Purchase accounting:		
50% of acquisition consideration	¥	3,000,000
Fair value of 50% of underlying net assets acquired		200,990
Equity method goodwill	¥	2,799,010
Carryover basis:		
50% of acquisition consideration	¥	3,000,000
Historical cost of 50% of underlying net assets acquired		200,990
Carryover basis adjustment to additional paid in capital	¥	2,799,010

On December 28, 2004, JPC acquired 100% of the outstanding shares of BB Factory Corporation Ltd. ("BBF"), a television programming company. The aggregate purchase price is estimated to be ¥618,000 thousand, of which ¥550,000 thousand was paid in cash on December 28, 2004. The estimated additional purchase consideration of ¥68,000 has been accrued at December 31, 2004. The amount was determined with reference to the net asset value of BBF at January 31, 2005, pending final approval by both parties to the transaction. The additional purchase amount for BBF shall be settled in cash no later than March 31, 2005. The acquisition was accounted for as a purchase. JPC intends to sell access rights to the BBF broadcasting infrastructure to a new joint venture in which the JPC will hold a 50% interest. The new joint venture will be named Reality TV Japan, and was incorporated on January 26, 2005. BBF operated Channel BB and as a result of the acquisition, JPC expects to decrease funding requirements for Reality TV Japan due to its access to direct-to-home revenue from the packages in which Channel BB was carried. JPC has recognized intangible assets in the amount of ¥200,000 thousand representing estimated financial benefits from taking over Channel BB's position in those packaging alliances, which it will amortize over a ten year period from 2005. The results of operations of BBF will be included in JPC's consolidated statements of operations from January 1, 2005. Goodwill from the acquisition of BBF is not deductible for tax purposes.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition of BBF (Yen in thousands).

Current assets	¥	224,471
Intangible assets		200,000
Goodwill		281,186
Total assets acquired		705,657
Current liabilities assumed		(6,277)
Deferred tax liabilities		(81,380)
Net assets acquired	¥	618,000

(3) Program Rights and Language Versioning

Program rights and language versioning as of December 31, 2003 and 2004 were composed of the following (Yen in thousands):

	2003	2004
Program rights	¥ 1,616,603	¥ 1,308,623
Language versioning	206,884	116,910
	1,823,487	1,425,533
Less accumulated amortization 557,638	(1,036,357)	(739,764)
	787,130	685,769
Less current portion	(646,758)	(599,480)
	¥ 140,372	¥ 86,289

Amortization expense related to program rights and language versioning for the years ended December 31, 2002, 2003 and 2004 was ¥1,298,054 thousand, ¥1,570,670 thousand and ¥1,732,435 thousand, respectively, which is included in cost of programming and distribution in the consolidated statements of operations in respective years.

(4) Investments

Investments, including advances, as of December 31, 2003 and 2004 were composed of the following (Yen in thousands):

	2003		2004	
	percentage ownership	carrying amount	percentage ownership	carrying amount
Investments accounted for under the equity method:				
Discovery Japan, Inc.	50.0%	¥ 281,692	50.0%	¥ 580,455
Animal Planet Japan, Co. Ltd.	33.3%	342,423	33.3%	223,510
InteracTV Co., Ltd.	42.5%	38,805	42.5%	38,586
JSports Broadcasting Corporation	28.5%	1,110,431	42.8%	4,045,414
AXN Japan, Inc.	35.0%	825,112	35.0%	879,630
Jupiter VOD Co., Inc.	—	—	50.0%	401,266
Total equity method investments		2,598,463		6,168,861
Investments accounted for at cost:				
NikkeiCNBC Japan, Inc.	9.8%	100,000	9.8%	100,000
Kids Station, Inc.	15.0%	304,500	15.0%	304,500
AT-X, Inc.	12.3%	266,000	12.3%	266,000
Nihon Eiga Satellite Broadcasting Corporation	10.0%	66,600	10.0%	66,600
Satellite Service Co. Ltd.	12.0%	24,000	12.0%	24,000
Total cost method investments		761,100		761,100
		¥ 3,359,563		¥ 6,929,961

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The following investments represent participation in programming businesses:

Discovery Japan, Inc., a general documentary channel;
Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
JSports Broadcasting Corporation, a sports channel business currently operating three channels;
AXN Japan, Inc., an action and adventure channel;
NikkeiCNBC Japan, Inc., a news service channel;
Kids Station, Inc., a children’s entertainment channel;
AT-X, Inc., an animation genre channel;
Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels; and
Jupiter VOD Co., Inc. a multi-genre video on demand programming service

The following investments represent participation in broadcast license-holding companies through which channels are consigned to subscribers to the “CS110 degree East’ Direct-to-home satellite service:

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;
Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

The following reflects JPC’s share of earnings (losses) of investments accounted for under the equity method for the years ended December 31, 2002, 2003 and 2004 (Yen in thousands):

	2002 (unaudited)	2003	2004
Discovery Japan, Inc.	¥ (92,949)	¥ 143,445	¥ 298,763
Animal Planet Japan, Co. Ltd.	(260,929)	(311,673)	(283,913)
InteracTV Co., Ltd.	(1,142)	(1,272)	(219)
JSports Broadcasting Corporation	191,262	143,227	135,973
AXN Japan, Inc.	—	(38,199)	(43,982)
Jupiter VOD Co., Inc.	—	—	(83,734)
	¥ (163,758)	¥ (64,472)	¥ 22,888

In August 2003, the Company invested ¥863,311 thousand to acquire a 35% interest in AXN Japan, Inc. (“AXN”). During 2004 JPC provided cash loans in the amount of ¥98,500 thousand to AXN. AXN is an action and adventure entertainment channel that complements JPC’s channel businesses.

In December 2004, the Company invested ¥485,000 thousand and acquired a 50% voting interest in Jupiter VOD Co., Ltd. (“JVOD”). JVOD is a video on demand service that will begin providing on-demand video services primarily to digitized cable systems capable of receiving its service from January 2005.

The carrying amount of investments in affiliates as of December 31, 2003, included ¥751,940 thousand of excess cost of the investments over the Company’s equity in the net assets of AXN. The carrying amount of investments in affiliates as of December 31, 2004, included ¥751,940 thousand and ¥2,799,010 thousand of excess cost of the investments over the Company’s equity in the net assets of AXN and JSB, respectively. The amount of that excess cost represents “equity method goodwill.”

JPC holds 33.3% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company has funding obligations in accordance with its ordinary shareholding ratio up to a maximum of ¥1,295,250 thousand. During the years ended December 31, 2003 and 2004, the Company invested ¥370,000 thousand and ¥165,000 thousand, respectively, and had made an aggregate investment of ¥1,295,000 thousand as of December 31, 2004, in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Animal Planet Japan, Co. Ltd. JPC's funding obligations for this investment have been substantially fulfilled. JPC and Animal Planet Japan, Co. Ltd.'s other shareholders are currently preparing a revised business plan and funding agreement for this investment.

The aggregate cost of JPC's cost method investments totaled ¥761,100 thousand at December 31, 2004. JPC estimated that the fair value of each of those investments exceeded the cost of the investment, and therefore concluded that no impairment had occurred.

Financial information for the companies in which the Company has an investment accounted for under the equity method is presented as combined as the companies are similar in nature and operate in the same business area. Condensed combined financial information is as follows (Yen in thousands):

	2003	2004
Combined financial position at December 31,		
Current assets	¥ 6,747,882	¥ 8,533,233
Other assets	1,780,915	634,175
Total assets	¥ 8,528,797	¥ 9,167,408
Current liabilities	¥ 2,983,359	¥ 3,056,756
Other liabilities	2,543,293	1,413,948
Shareholders' equity	3,002,145	4,696,704
Total liabilities and shareholders' equity	¥ 8,528,797	¥ 9,167,408

	2002 (unaudited)	2003	2004
Combined operations for the year ended December 31,			
Revenues	¥ 16,034,608	¥ 15,256,112	¥ 21,682,192
Operating expenses	15,720,997	15,270,229	21,998,685
Operating income (loss)	313,611	(14,117)	(316,493)
Other income, net, including income taxes	364,935	319,099	783,921
Net income	¥ 678,546	¥ 304,982	¥ 467,428

(5) Property and Equipment

Property and equipment as of December 31, 2003 and 2004 were comprised of the following (Yen in thousands):

	2003	2004
Furniture and fixtures	¥ 143,364	¥ 187,233
Leasehold and building improvements	671,028	1,362,537
Equipment and vehicles	2,698,152	4,295,113
Buildings	—	851,485
Land	437,147	437,147
Construction in progress	253,678	183,254
	4,203,369	7,316,769
Less accumulated depreciation and amortization	(2,191,083)	(1,989,701)
	¥ 2,012,286	¥ 5,327,068

Property and equipment include assets held under capitalized lease arrangements (Note 11). Depreciation and amortization expense related to property and equipment for the years ended December 31, 2002, 2003 and 2004 was ¥699,332 thousand, ¥734,930 thousand and ¥772,907 thousand, respectively.

(6) Software Development Costs

Capitalized software development costs for internal use as of December 31, 2003 and 2004 are as follows (Yen in thousands):

	2003	2004
Software development costs	¥ 2,722,942	¥ 3,773,137
Less accumulated amortization	(1,272,554)	(1,870,893)
	¥ 1,450,388	¥ 1,902,244

Significant software development additions during 2003 and 2004 included development of Shop Channel core system and e-commerce infrastructure, and further development of a sales receivables management system, all of which are for internal use.

Aggregate amortization expense for the years ended December 31, 2002, 2003 and 2004 was ¥355,727 thousand, ¥451,327 thousand and ¥584,340 thousand, respectively.

(7) Intangibles

Intangible assets acquired during the year ended December 31, 2004 totaled ¥214,936 thousand. The weighted average amortization period is ten years. (Note 2)

The details of intangible assets other than software and goodwill at December 31, 2003 and 2004 were as follows (Yen in thousands):

	2003	2004
Intangible assets subject to amortization, net of accumulated amortization of ¥6,420 thousand in 2003 and ¥28,417 thousand in 2004:		
Channel packaging arrangements	¥ —	¥ 200,000
Other	54,525	46,886
	54,525	246,886
Other intangible assets not subject to amortization:	4,868	5,073
Total other intangible assets	¥ 59,393	¥ 251,959

Channel packaging arrangements represent estimated value to be derived from existing channel position in packaging alliances on the direct-to-home satellite distribution platform, and are being amortized over their estimated useful life of ten years. The aggregate amortization expense of other intangible assets subject to amortization for the years ended December 31, 2002, 2003 and 2004 was ¥36,177 thousand, ¥1,802 thousand and ¥22,257 thousand, respectively. The future estimated amortization expenses for each of five years relating to amounts currently recorded in the consolidated balance sheet are as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 45,892
2006	26,146
2007	22,466
2008	22,466
2009	22,466

(8) Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2002, 2003 and 2004 were as follows (Yen in thousands):

	2002 (unaudited)	2003	2004
Balance at beginning of year	¥ —	¥ 191,482	¥ 188,945
Acquisitions	191,482	—	281,186
Adjustment	—	(2,537)	—
Balance at end of year	¥ 191,482	¥ 188,945	¥ 470,131

A breakdown of the goodwill recorded during 2002 and 2004 is provided in note 2 and is summarized as follows:

2002	Misawa Satellite Broadcasting Co	¥191,482 thousand
2004	BB Factory	¥281,186 thousand

(9) Derivative Instruments and Hedging Activities

JPC uses foreign exchange forward contracts that extend 3 to 52 months to manage currency exposure, resulting from changes in foreign currency exchange rates, on purchase commitments for contracted programming rights and other contract costs and for forecasted inventory purchases in U.S. dollars. JPC enters into these contracts to hedge its U.S. dollar denominated monetary exposures.

JPC does not enter into derivative financial transactions for trading or speculative purposes.

JPC is exposed to credit-related losses in the event of non-performance by the counterparties to derivative financial instruments, but they do not expect the counterparties to fail to meet their obligations because of the high credit rating of the counterparties.

For certain qualifying transactions entered into from January 1, 2004, JPC designates the transactions as cash flow hedges and the effective portion of the gain or loss on the derivative instrument is reported as a component of other accumulated comprehensive loss. The amount of hedge ineffectiveness recognized currently in foreign exchange gain was not material for the year ended December 31, 2004. These amounts are reclassified into earnings through loss (gain) on forward exchange contracts when the hedged items impact earnings. Accumulated losses, net of taxes, of ¥16,705 thousand are included in accumulated other comprehensive loss at December 31, 2004, and will be reclassified into earnings within twelve months. No cash flow hedges were discontinued during the year ended December 31, 2004 as a result of forecasted transactions that are no longer probable to occur.

JPC has entered into foreign exchange forward contracts designated but not qualified as hedging instruments under SFAS No. 133 as a means of hedging certain foreign currency exposures. JPC records these contracts on the balance sheet at fair value. The changes in fair value of such instruments are recognized currently in earnings and are included in foreign exchange (loss) gain.

At December 31, 2003, the fair value of forward exchange contracts not designated as hedging instruments recognized in the balance sheet was a liability of ¥241,507 thousand. At December 31, 2004, the fair value of forward exchange contracts recognized in the balance sheet was a liability of ¥174,959 thousand and an asset of ¥18,813 thousand.

(10) Fair Value of Financial Instruments

The carrying amounts for financial instruments in JPC's consolidated financial statements at December 31, 2003 and 2004 approximate to their estimated fair values. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, accrued liabilities, and other current liabilities (non-derivatives): The carrying amounts approximate fair value because of the short duration of these instruments.

Foreign exchange forward contracts: The carrying amount is reflective of fair value. The fair value of currency forward contracts is estimated based on quotes obtained from financial institutions. As at December 31, 2003, fair value of foreign exchange forward contracts of ¥241,507 thousand was included in the consolidated balance sheet under other current liabilities. As at December 31, 2004, fair value of foreign exchange forward contracts of ¥18,813 thousand was included in the consolidated balance sheet under other current assets, and ¥174,959 thousand was included under other current liabilities.

Long-term debt, including current maturities and short-term debt: The fair value of JPC's long-term debt is estimated by discounting the future cash flows of each instrument by a proxy for rates expected to be incurred on similar borrowings at current rates. Borrowings bear interest based on certain financial ratios that determine a margin over Euroyen TIBOR, and are therefore variable. JPC believes the carrying amount approximates fair value based on the variable rates and currently available terms and conditions for similar debt.

Capital lease obligations, including current installments: The carrying amount is reflective of fair value. The fair value of JPC's capital lease obligations is estimated by discounting the future cash flows of each instrument at rates currently offered to JPC by leasing companies.

(11) Leases

JPC is obligated under various capital leases for certain equipment and other assets that expire at various dates, generally during the next five years. At December 31, 2003 and 2004, the gross amount of equipment and the related accumulated amortization recorded under capital leases were as follows (Yen in thousands):

	2003	2004
Equipment and vehicles	¥ 1,794,097	¥ 1,839,215
Others	99,667	126,368
Less accumulated amortization	(1,417,805)	(865,908)
	¥ 475,959	¥ 1,099,675

Amortization of assets held under capital leases is included with depreciation and amortization expense. Leased equipment is included in property and equipment (note 5).

Future minimum capital lease payments as of December 31, 2004 were as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 313,917
2006	247,663
2007	224,818
2008	190,961
2009	170,756
Thereafter	24,479
Total minimum lease payments	1,172,594
Less amount representing interest (at rates ranging from 1.25% to 2.6%)	(59,393)
Present value of future minimum capital lease payments	1,113,201
Less current installments	(290,031)
	¥ 823,170

JPC also has several operating leases, primarily for office space, that expire over the next 10 years and a 30-year lease for land that expires in 29 years. Rent expense for the years ended December 31, 2002, 2003 and 2004 was ¥238,621 thousand, ¥275,264 thousand and ¥332,530 thousand, respectively.

The Company leases two principle office premises. JPC headquarters has a three-year lease agreement from August 2004, with a rolling two-year right of renewal that provides for annual rental costs of ¥245,118 thousand. Shop Channel has a 10-year agreement expiring in October 2013 with an annual rental cost of ¥185,905 thousand. These and other leases for office space are mainly cancelable upon six months notice. Accordingly, the schedule below detailing future minimum lease payments under non-cancelable operating leases includes the lease costs for the Company's premises for only a six-month period.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Future minimum lease payments for the noncancelable portion of operating leases as of December 31, 2004 were as follows (Yen in thousands):

Year ending December 31,	
2005	¥ 293,418
2006	4,980
2007	4,980
2008	4,980
2009	4,980
Thereafter	111,635
Total minimum lease payments	¥ 424,973

(12) <u>Debt</u>

Short-term debt at December 31, 2003 and 2004 consisted of the following (Yen in thousands):

	2003	2004
Promissory note	¥ 46,000	¥ —

Short-term debt in 2003 represented a promissory note in the amount of ¥46,000 thousand due to Sony Pictures Entertainment (Japan) Inc. which was repaid by the due date of March 31, 2004.

Long-term debt at December 31, 2003 and 2004 consisted of the following (Yen in thousands):

	2003	2004
Borrowings from banks	¥ 4,000,000	¥ 4,000,000
Loans from shareholders	1,000,000	1,000,000
Loans from subsidiary minority shareholders	1,016,000	—
Total long-term debt	6,016,000	5,000,000
Less: current maturities	—	—
Long-term debt	¥ 6,016,000	¥ 5,000,000

At December 31, 2004, the Company had a ¥10,000,000 thousand credit facility (the "Facility") available for immediate and full borrowing with a group of banks. The Facility, which is guaranteed by certain of the Company's subsidiaries, comprises an ¥8,000,000 thousand five-year term loan and a ¥2,000,000 thousand 364-day revolving facility. Outstanding borrowings under the five-year term loan at December 31, 2003 and 2004 were ¥4,000,000 thousand. There were no borrowings outstanding under the 364-day revolving facility as of December 31, 2003 and 2004. The Company pays a commitment fee of 0.20% on undrawn borrowings of the Facility. Interest on outstanding borrowings is based on certain financial ratios and can range from Euroyen TIBOR + 0.75% to TIBOR + 2.00% for the five-year term loan and from TIBOR + 0.70% to TIBOR + 1.00% for the 364-day revolving facility. The interest rates charged at December 31, 2003 and 2004 for the five-year term loan and for the 364-day revolving facility were 0.83% and 0.835% and 0.78% and 0.785%, respectively.

The term loan portion of the Facility is available for immediate and full borrowing to be drawn upon until December 25, 2005. Repayment by installments begins on March 31, 2006, on a quarterly basis, equal to 10% of the outstanding balance at the end of the availability period, until fully repaid on June 25, 2008. The 364-day revolving facility was renewed on June 22, 2004 and is available for immediate and full borrowing until June 22, 2005, and repayment in full is due on that date.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Facility contains certain financial and other restrictive covenants. The financial covenants consist of: (i) EBITDA, as defined by the Facility agreement and reported on a Commercial Code of Japan basis, shall be equal to or exceed; for year 2004, ¥3,000,000 thousand; for year 2005, ¥3,500,000 thousand; for year 2006, ¥4,000,000 thousand; for year 2007, ¥5,000,000 thousand; and (ii) 'Actual Amount of Investment', as defined by the Facility agreement, shall not exceed 'Maximum Amount of Investment' as defined, provided that, in respect of a year, an amount equal to the excess of Maximum over Actual amount of investment shall be added to the Maximum Amount of Investment of the next following year. Maximum amounts of investment are defined relative to prior year EBITDA and other specified amounts.

Restrictive covenants contained in the Facility agreement include certain restrictions on: (i) creation of contractual security interests over the Company's assets; (ii) sale of assets that would result in material adverse effect, or would comprise over 10% of total assets; (iii) corporate reorganization that would result in material adverse effect; (iv) sale of shares in principal subsidiaries; (v) distribution of dividends, repurchase of own shares, and repayment of subordinated loans; (vi) amendment of subordinated loan agreements; (vii) transactions with related parties other than in normal course of business, (viii) changes in fundamental nature of business; (ix) incursion of interest-bearing debt not contemplated in the Facility agreement; (x) transfer, creation of security interests on, or otherwise disposal of the Company's shares; (xi) changes in control of the Company management by parent companies; (xii) purchase of shares in companies in unrelated business areas; and (xiii) changes in scope of the business of a particular subsidiary. JPC was in compliance with these covenants at December 31, 2004.

JPC has outstanding term borrowings of ¥500,000 thousand from each of LMI and Sumitomo Corporation. The borrowings are subordinated to the Facility described above. The borrowings bear interest at the higher of the rate applicable to the term loan portion of the Facility, and Japan Long Term Prime rate (1.85% and 1.55% at December 31, 2003 and 2004, respectively), and are due in full on July 26, 2008.

JPC had the following debt of certain subsidiaries due to minority shareholders in those subsidiaries:

As of December 31, 2003 JPC had outstanding borrowings of ¥836,000 thousand by Jupiter Sports Inc. due to Liberty J Sports, Inc., an indirect wholly owned subsidiary of LMI. The borrowings bore interest at the higher of the rate applicable to the term loan portion of the Facility and Japan Long Term Prime rate (1.85% at December 31, 2003), and was due in full on December 31, 2007. In April 2004, JPC acquired all of the issued and outstanding shares of Liberty J Sports, Inc. from LMI. Upon acquiring control, the outstanding borrowings were eliminated in consolidation of Liberty J Sports, Inc., which was subsequently renamed J Sports LLC. Note 2 provides further details of this acquisition.

As of December 31, 2003 JPC had outstanding borrowings of ¥180,000 thousand by Jupiter Shop Channel Co., Ltd. due to Home Shopping Network Inc. The borrowings bore interest at the Japan Short Term Prime rate (1.375% at December 31, 2003). The borrowings were due in full on December 31, 2005 and were repaid early in full in December 2004. No gain or loss was recognized on this repayment transaction.

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2004 were as follows (Yen in thousands):

	2004
Year ending December 31,	
2005	¥ —
2006	1,600,000
2007	1,600,000
2008	1,800,000
2009	—
Total debt	¥ 5,000,000

(13) Income Taxes

The components of the provision for income taxes for the years ended December 31, 2002, 2003 and 2004 recognized in the consolidated statements of operations were as follows (Yen in thousands):

	2002 (unaudited)	2003	2004
Current taxes	¥ 1,239,964	¥ 2,072,264	¥ 3,229,627
Deferred taxes	(536,017)	(553,039)	(278,181)
Income tax expense	¥ 703,947	¥ 1,519,225	¥ 2,951,446

All pre-tax income and income tax expense is related to operations in Japan. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2004 were presented below (Yen in thousands).

	2003	2004
Deferred tax assets:		
Retail inventories	¥ 617,970	¥ 811,289
Property and equipment	195,223	297,238
Accrued liabilities	372,529	330,995
Enterprise tax payable	142,709	195,588
Unrealized foreign exchange	101,371	62,581
Equity method investments	711,645	944,389
Operating loss carryforwards	1,892,339	895,097
Others	270,394	320,361
	4,304,180	3,857,538
Less valuation allowance	(2,901,655)	(2,165,372)
Total deferred tax assets	1,402,525	1,692,166
Deferred tax liabilities:		
Intangibles	—	(81,380)
Net deferred tax assets	¥ 1,402,525	¥ 1,610,786

The net changes in the total valuation allowance for the years ended December 31, 2002, 2003 and 2004 were decreases of ¥1,003,452 thousand, ¥1,970,667 thousand, and ¥736,283 thousand, respectively.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which the operating losses are available for use. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

At December 31, 2004, JPC and its subsidiaries had total net operating loss carryforwards for income tax purposes of approximately ¥2,199,795 thousand, which are available to offset future taxable income, if any. JPC's subsidiaries are subject to taxation on a stand-alone basis and net operating loss carryforwards may not be utilized against other group company profits. Aggregated net operating loss carryforwards, if not utilized, expire as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,116,701
2006		143,308
2007		—
2008		—
2009		351,540
2010		229,485
2011		358,761
	¥	2,199,795

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42.1%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates became effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate was lowered to approximately 40.7% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005. As a result of the decrease in the statutory tax rate, when compared with the amounts based on the tax rate applied before this revision, the net deferred tax assets decreased by approximately ¥47,119 thousand at December 31, 2004. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

percentage of income before income taxes for the years ended December 31, 2002, 2003 and 2004 is as follows:

	2002 (unaudited)	2003	2004
Statutory tax rate	42.1%	42.1%	42.1%
Non-deductible expenses	2.8	1.9	1.4
Change in valuation allowance	(27.1)	(9.9)	(1.2)
Income tax credits	—	—	(0.8)
Reduction of tax net operating loss due to intercompany transfer of assets	19.6	—	—
Additional tax deduction due to intercompany transfer of assets	(3.9)	(1.7)	(1.1)
Effect of tax rate change	—	—	0.7
Others	0.6	(0.7)	(0.3)
Effective income tax rate	34.1%	31.7%	40.8%

(14) Accrued Pension and Severance Cost

Net periodic cost of the Company and its subsidiaries' unfunded RAP accounted for in accordance with SFAS No. 87 for the years ended December 31, 2002, 2003 and 2004, included the following components (Yen in thousands):

	2002 (unaudited)	2003	2004
Service cost — benefits earned during the year	¥ 43,652	¥ 44,743	¥ 49,768
Interest cost on projected benefit obligation	2,625	3,951	4,332
Recognized actuarial loss	10,341	15,972	24,317
Net periodic cost	¥ 56,618	¥ 64,666	¥ 78,417

The reconciliation of beginning and ending balances of the benefit obligations of the Company and its subsidiaries' plans accounted for in accordance with SFAS No. 87 are as follows (Yen in thousands):

	2003	2004
Change in projected benefit obligations:		
Benefit obligations, beginning of year	¥ 158,031	¥ 216,611
Service cost	44,743	49,768
Interest cost	3,951	4,332
Actuarial loss	15,973	24,317
Benefits paid	(6,087)	(10,232)
Projected benefit obligations, end of year	¥ 216,611	¥ 284,796
Accumulated benefit obligations, end of year	¥ 164,662	¥ 210,159

Actuarial gains and losses are recognized fully in the year in which they occur. The weighted-average discount rate used in determining net periodic cost of the Company and its subsidiaries' plans was 2.50%, 2.00% and 2.00% for the years ended December 31, 2002, 2003 and 2004, respectively. The weighted-average discount rate used in determining benefit obligations as of December 31, 2003 and 2004 was 2.00%. Assumed salary increases ranged from 1% to 4.1% depending on employees' age for the years ended December 31, 2002, 2003 and 2004.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (Yen in thousands):

Year ending December 31,		
2005	¥	16,206
2006		25,570
2007		25,291
2008		29,482
2009		34,715
Years 2010-2014		174,596

JPC uses a measurement date of December 31 for all of its unfunded Retirement Allowance Plans.

In addition, employees of the Company and certain of its subsidiaries participate in a multi-employer defined benefit EPF plan. The Company contributions to this plan amounted to ¥56,976 thousand, ¥60,322 thousand, and ¥44,510 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

(15) Shareholders' Equity

The Commercial Code of Japan, provides that an amount equal to at least 10% of cash dividends and other cash appropriations paid be appropriated as a legal reserve until the aggregated amount of additional paid-in capital and the legal reserve equals 25% of the issued capital.

The Company paid no cash dividends for the years ended December 31, 2002, 2003 and 2004. The amount available for dividends under the Commercial Code of Japan is based on the unappropriated retained earnings recorded in the Company's books of account and amounted to nil at December 31, 2004.

On January 30, 2004, the total number of JPC's ordinary shares authorized to be issued was increased from 450,000 to 460,000 shares.

On March 5, 2004, JPC transferred ¥8,400,000 thousand of common stock to additional paid-in capital (¥6,587,064 thousand) and accumulated deficit (¥1,812,936 thousand). The transfer was approved by the Company's stockholders in accordance with the Commercial Code of Japan, which allows a company to make a purchase of its own shares, as contemplated in the further transaction noted below, only from specified additional paid-in capital or retained earnings reserves. JPC purchased its own shares using the resulting additional paid-in capital, and elected at the same time to eliminate its accumulated deficit and generate positive retained earnings on a single entity basis. On a consolidated basis, JPC continued to show an accumulated deficit immediately after that transfer. Such transfer did not impact JPC's total equity, cash position or liquidity. Had the Company been subject to corporate law generally applicable to United States companies for similar transactions, the accumulated deficit at December 31, 2004 would be ¥1,812,936 thousand more than the amount included in the accompanying consolidated financial statements.

During March and April 2004 the following capital transactions occurred and were based on an independent third party valuation of the common stock of JPC:

1) Issuance of 24,000 newly issued shares of common stock to Sumitomo Corporation at a rate of ¥250,000 per common share (¥6,000,000 thousand), ¥3,000,000 thousand of which was allocated to common stock with the remaining ¥3,000,000 thousand allocated to additional paid-in capital;

2) Redemption of 12,000 shares of common stock from Sumitomo Corporation at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

3) Redemption of 12,000 shares of common stock from Liberty Programming Japan at a rate of ¥250,000 per common share (¥3,000,000 thousand) to be held as treasury stock;

4) Issuance of 24,000 shares of common stock held in treasury shares to Liberty Programming Japan II Inc. in return for 1,000 shares of common stock in Liberty J Sports Inc. Liberty J Sports Inc. was then converted to a limited liability company with the Certificate of Conversion filed with the Delaware Secretary of State, and was subsequently renamed J Sports LLC. J Sports LLC is a wholly owned subsidiary of JPC.

(16) Related Party Transactions

JPC engages in a variety of transactions in the normal course of business. Significant related party balances, income and expenditures have been separately identified in the consolidated balance sheets and statements of operations. A list of related parties and a description of main types of transactions with each party follows:

Sumitomo Corporation, shareholder, and its subsidiaries: television programming advertising revenues, cost of retail sales, costs of programming and distribution, selling, general and administrative expenses for staff secondment fees, cash deposits, property and equipment capital leases, subordinated loans and interest thereon;

LMI, shareholder, and its subsidiaries: selling, general and administrative expenses for staff secondment fees and recharge of project development costs, subordinated loans and interest thereon;

Discovery Japan, Inc., and Animal Planet Japan, Co. Ltd, affiliate companies: services and other revenues from cable and advertising sales activities and broadcasting, marketing and office support services; costs of programming, distribution relating to direct-to-home subscription revenue and receipt of cash advances;

JSports Broadcasting Corporation, affiliate company: services and other revenues from cable and advertising sales activities and recovery of staff costs for seconded staff;

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to JPC, costs of programming and distribution payments for transponder services;

Minority interests in Jupiter Golf Network, Co. Ltd, four companies holding total of 10.6%: television programming advertising revenues;

Home Shopping Network Inc.: minority shareholder loans and interest thereon;

Jupiter Telecommunications Co., Ltd, an affiliated company of LMI and Sumitomo Corporation at December 31, 2004, and an indirect consolidated subsidiary of LMI effective January 1, 2005: television programming cable subscription revenues, costs of programming and distribution for carriage of Shop Channel by cable systems.

(17) Concentration of credit risk

As of December 31, 2003 and 2004, SkyPerfecTV, an unrelated party, and Jupiter Telecommunications Co., Ltd (“JCom”), a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company. For the years ended December 31, 2002, 2003 and 2004, subscription revenues of ¥1,688,119 thousand, ¥2,888,163 thousand and ¥3,095,526 thousand, respectively, received through SkyPerfect TV, accounted for approximately 35%, 45% and 44%, respectively, of subscription revenues, and 5%, 6% and 5%, respectively, of total revenues. As of

JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2002, 2003 and 2004, SkyPerfect TV accounted for approximately 7%, 5% and 6%, respectively, of accounts receivable.

For the years ended December 31, 2002, 2003 and 2004, subscription revenues of ¥1,207,749 thousand, ¥1,361,897 thousand and ¥1,464,167 thousand, respectively, received through JCom, accounted for approximately 25%, 21% and 21%, respectively, of subscription revenues, and 4%, 3% and 2%, respectively, of total revenues. As of December 31, 2002, 2003 and 2004, JCom accounted for approximately 7%, 6% and 3%, respectively, of accounts receivable.

(18) Commitments, Other Than Leases

At December 31, 2004, JPC has commitments to purchase various program rights as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,131,527
2006		822,490
2007		37,864
2008		14,205
Total program rights purchase commitments	¥	2,006,086

At December 31, 2004, JPC has commitments for transponder and uplink services as follows (Yen in thousands):

Year ending December 31,		
2005	¥	1,217,059
2006		1,265,173
2007		642,872
2008		523,984
2009		403,459
Thereafter		140,142
Total transponder and uplink services commitments	¥	4,192,689

JPC contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. JPC channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Transponder service contracts are generally ten years in duration. Service fees are based on fixed rates or a fixed portion plus a variable portion based on platform subscriber numbers. Termination is possible on a channel-by-channel basis. One transponder service provider charges termination penalty fees, the other does not charge a fee until the last channel from one licensed broadcaster terminates. Due to the unclear nature of the responsibility for termination fees, commitments are disclosed for the full minimum commitment amounts under the service contracts.

JPC has capital equipment purchase commitments amounting to ¥2,024,206 thousand at December 31, 2004 that must be expended by December 31, 2005.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Torneos y Competencias S.A.:

We have audited the accompanying consolidated balance sheets of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Torneos y Competencias S.A. and its subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As disclosed in Note 1 to the consolidated financial statements, the Company is in default with respect to two bank loans and certain loans are past due. In addition, at December 31, 2004, the Company has a net working capital deficiency. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regards to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Finsterbusch Pickenhayn Sibille(*)

Buenos Aires, Argentina
March 11, 2005

(*) Finsterbusch Pickenhayn Sibille is the Argentine member firm of KPMG International, a Swiss cooperative.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED BALANCE SHEETS

	December 31, 2004	December 31, 2003
	(In thousands of Argentine pesos)	
ASSETS		
Current Assets		
Cash	A$ 2,641	A$ 2,224
Accounts receivable, net	19,007	15,116
Related party receivables (Note 6)	15,426	9,087
Programming rights, net	3,210	7,268
Advances to soccer clubs	1,180	2,216
Tax receivables	2,805	5,877
Building held for sale (Notes 6.d and 11.a)	2,940	—
Prepaid expenses and other current assets	3,466	2,375
Total current assets	50,675	44,163
Related party receivables (Note 6)	2,885	774
Programming rights, net	19,050	9,291
Advances to soccer clubs	2,421	4,660
Deferred income taxes (Note 9)	1,360	2,054
Investments in affiliates accounted for under the equity method (Note 4)	21,132	19,185
Property and equipment, net (Note 5)	15,690	15,914
Other assets	1,214	1,165
Assets associated with discontinued operations (Note 6.d)	—	5,909
TOTAL ASSETS	A$ 114,427	A$ 103,115
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	A$ 28,532	A$ 11,743
Related party liabilities (Note 6)	6,216	15,880
Debt (Note 7)		
Related party debt	8,419	8,306
Third party debt	8,333	9,024
Taxes payable	6,588	5,331
Deferred income	6,906	16,133
Other liabilities	4,816	4,203
Total current liabilities	69,810	70,620
Investments in affiliates accounted for under the equity method (Note 4)	—	3,715
Other liabilities	2,076	3,476
Liabilities associated with discontinued operations (Note 6.d)	3,700	3,208
TOTAL LIABILITIES	A$ 75,586	A$ 81,019
Commitments and contingencies (Note 10)		
Minority interest in subsidiaries	(31)	8
Stockholders' equity:		
Common stock, A$1 par value. 50,160,000 shares authorized, issued and outstanding	50,160	50,160
Additional paid-in capital	—	107,812
Accumulated other comprehensive losses, net of taxes	(6,768)	(6,717)
Legal reserve	—	1,597
Accumulated deficit	(4,520)	(130,764)
Total stockholders' equity	A$ 38,872	A$ 22,088
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	A$ 114,427	A$ 103,115

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year ended December 31, 2004	2003	2002
	(In thousands of Argentine pesos, except number of shares and per share amounts)		
Revenue			
Related party (Note 6)	A$ 74,941	A$ 76,977	A$ 69,974
Third party	28,126	18,553	10,729
Operating costs and expenses			
Operating (other than depreciation)			
Related party (Note 6)	(814)	(1,676)	(1,253)
Third party	(58,948)	(44,970)	(36,490)
Selling, general and administrative			
Related party (Note 6)	(70)	(143)	(400)
Third party	(25,565)	(23,360)	(20,003)
Provision for doubtful accounts and other receivables	(3,798)	(709)	(7,293)
Depreciation	(1,404)	(1,424)	(1,719)
Impairment of goodwill (Note 2)	—	—	(95,663)
Operating income (loss)	12,468	23,248	(82,118)
Share of earnings (losses) from equity affiliates (Note 4)	12,901	9,427	(10,589)
Interest expense	(7,215)	(10,042)	(18,321)
Foreign currency transaction gains (losses)	4,167	5,365	(9,236)
Other income (expenses), net	(709)	459	(2,082)
Income (loss) from continuing operations before income tax and minority interest	21,612	28,457	(122,346)
Income tax expense (Note 9)	(5,027)	(7,886)	(1,698)
Minority interest in losses (earnings) of subsidiaries	11	(16)	116
Income (loss) from continuing operations	16,596	20,555	(123,928)
Discontinued operations, net of tax (including gain on disposal of A$239 during 2004 and impairment of goodwill of A$6,074 during 2002) (Note 6.d)	239	(604)	(9,658)
Net income (loss)	A$ 16,835	A$ 19,951	A$ (133,586)
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustment	(51)	1,136	(6,222)
Comprehensive income (loss)	A$ 16,784	A$ 21,087	A$ (139,808)
Income (loss) per share from continuing operations	0.33	0.41	(2.47)
Income (loss) per share from discontinued operations	0.01	(0.01)	(0.19)
Net income (loss) per share	0.34	0.40	(2.66)
Weighted average number of common shares outstanding	50,160,000	50,160,000	50,160,000

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common stock	Additional paid-in capital	Accumulated other comprehensive losses, net of taxes	Legal reserve	Accumulated deficit	Total stockholders' equity
	(In thousands of Argentine pesos)					
Balance as of January 1, 2002	A$ 50,160	A$ 107,812	A$ (1,631)	A$ 1,597	A$ (17,129)	A$ 140,809
Foreign currency translation adjustment	—	—	(6,222)	—	—	(6,222)
Net loss	—	—	—	—	(133,586)	(133,586)
Balance as of December 31, 2002	50,160	107,812	(7,853)	1,597	(150,715)	1,001
Foreign currency translation adjustment	—	—	1,136	—	—	1,136
Net income	—	—	—	—	19,951	19,951
Balance as of December 31, 2003	50,160	107,812	(6,717)	1,597	(130,764)	22,088
Foreign currency translation adjustment	—	—	(51)	—	—	(51)
Absorption of accumulated deficit as required under Argentine law (Note 8)	—	(107,812)	—	(1,597)	109,409	—
Net income	—	—	—	—	16,835	16,835
Balance as of December 31, 2004	A$ 50,160	A$ —	A$ (6,768)	A$ —	A$ (4,520)	A$ 38,872

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	(In thousands of Argentine pesos)		
Cash flows from operating activities:			
Income (loss) from continuing operations	A$ 16,596	A$ 20,555	A$ (123,928)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Provision for doubtful accounts and other receivables	3,798	709	7,293
Depreciation	1,404	1,424	1,719
Share of (earnings) losses from equity affiliates	(12,901)	(9,427)	10,589
Impairment of goodwill	—	—	95,663
Minority interest in losses (earnings) of subsidiaries	(11)	16	(116)
Deferred tax expense	694	4,170	1,698
Changes in operating assets and liabilities, net of the effect of dispositions:			
Receivables, programming rights and others	(17,098)	13,847	3,775
Payable and other current liabilities	2,194	(24,639)	30,019
Net cash provided by (used in) operating activities	(5,324)	6,655	26,712
Cash flows from investing activities:			
Capital expenditures	(1,430)	(1,162)	—
Cash distribution from equity affiliates	7,500	—	2,718
Proceeds from the sale of property and equipment	250	—	732
Net cash provided by (used in) investing activities	6,320	(1,162)	3,450
Cash flows from financing activities:			
Debt proceeds	4,338	1,213	10,537
Repayment of debt	(4,917)	(5,063)	(43,649)
Net cash used in financing activities	(579)	(3,850)	(33,112)
Net cash provided by (used in) discontinued operations	—	(26)	172
Net increase (decrease) in cash	417	1,617	(2,778)
Cash at beginning of year	2,224	607	3,385
Cash at end of year	A$ 2,641	A$ 2,224	A$ 607

See accompanying notes to consolidated financial statements.

TORNEOS Y COMPETENCIAS S.A.
December 31, 2004, 2003 and 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of Argentine pesos, except as otherwise mentioned)

1. Description of business, liquidity and basis of presentation

Description of business

Torneos y Competencias S.A. ("TyC" or the "Company") is an independent producer of Argentine sports and entertainment programming that, through various affiliates, operates a sports programming cable channel; commercializes rights to televise sporting events via cable, satellite and broadcast television; and manages two sports magazines and several thematic soccer bars. TyC's emphasis is on soccer, and it has an exclusive agreement (except for certain cable broadcast rights held by an affiliate) with the *Asociación de Fútbol Argentino*, or "AFA", to produce and distribute programs related to matches between clubs in the Argentine professional soccer leagues. This agreement expires in 2010 unless extended to 2014 at TyC's request. TyC produces or co-produces, with its three television studios and the production facilities of its production partners, a number of soccer-based programs, such as *Fútbol de Primera*, *El clásico del Domingo and Fútbol de Verano.*

TyC has interests in two magazines: El Grafico, which covers Argentine and international sports, with special emphasis on soccer; and Golf Digest, the Argentine and Chilean editions of the American golf magazine.

TyC also has the rights to broadcast friendly summer season tournaments in different Argentine cities through 2007.

The Company's principal shareholders are:

Shareholders	Ownership percentage
ACH Acquisitions Co.	20%
Telefónica de Contenidos S.A. Unipersonal	20%
A y N Argentina LLC	20%
Liberty Argentina, Inc, a subsidiary of Liberty Media International, Inc ("LMI")	40%

TyC's 50% — owned affiliate, *Televisión Satelital Codificada S.A.*, or "TSC" holds the commercial rights in Argentina, with certain exceptions, to televise selected official soccer matches of AFA's Premier Ligue. TSC sells the rights to televise specific matches to cable operators, to an over-the-air broadcast television channel in and around Buenos Aires and, in certain cases, exclusively to the TyC Sports Channel.

Another 50% — owned affiliate of TyC, *TELE-RED Imagen S.A.*, or "TRISA" owns the TyC Sports Channel, the first dedicated sports cable channel in Argentina, which packages soccer programming co produced by Torneos and other sporting events to which TRISA holds commercial rights. TRISA also holds commercial rights to produce and distribute certain motor car racing, basketball and boxing events.

T&T Sports Marketing Inc. ("T&T"), a 50% — owned affiliate of the Company, has entered into agreements with the *"Confederación Sudamericana de Fútbol ("Conmebol")* for the acquisition of the *"Copa Libertadores"* and *"Copa Sudamericana"* broadcasting rights up to 2010. See Notes 4 and 6.

Liquidity

The Company is in default with respect to two bank loans. In addition, the Company's loans from LMI are past due. Principal and interest under these bank and LMI loans of A$13,346 and A$4,088, respectively, have been classified as current liabilities at December 31, 2004. See Note 7. In addition, at December 31, 2004, current liabilities exceed current assets by A$19,135. The Company plans to renegotiate these loans to extend the repayment terms. Although the Company expects that it will be able to successfully renegotiate the bank loans that are in default and the past due loans from LMI, no assurance can be given that the Company will be successful. In the event that the Company's efforts in this regard are not successful, the Company's ability to continue as a going concern could be adversely affected in that the Company may not have sufficient funds available to meet its current liabilities as they become due and payable, particularly if payment is demanded under the aforementioned bank or LMI loans.

Basis of presentation

The accompanying consolidated financial statements include the accounts of TyC and all voting interest entities where TyC exercises a controlling interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which TyC is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. TyC management concluded that the Company holds no interest in entities that meet the definition of variable interest entities pursuant to Financial Accounting Standards Board Interpretation No. 46(R).

TyC's operating subsidiaries and TyC's most significant equity affiliates as of December 31, 2004 are set forth below:

Operating subsidiaries as of December 31, 2004
Avilacab S.A. ("Avilacab")
South American Sports S.A. ("SAS")
TyC Minor S.A. ("TyC Minor")

Significant equity affiliates as of December 31, 2004
TSC
TRISA
T&T

For additional information concerning TyC's equity affiliates, see Note 4.

In the following notes, references to the Company refer to TyC and its consolidated subsidiaries.

2. Summary of significant accounting policies

The Company maintains its books of account in conformity with financial accounting standards of the City of Buenos Aires, Argentina. The accompanying consolidated statements have been prepared in a manner and reflect certain adjustments which are necessary to conform to accounting principles generally accepted in the United States of America ("US GAAP").

Use of estimates

The preparation of these consolidated financial statements in conformity with US GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values and useful lives of long-lived assets and any related impairment. Actual results could differ from those estimates.

The Company does not control the decision making process or business management practices of TyC's equity affiliates. Accordingly, the Company relies on management of these affiliates and their independent auditors to provide us with accurate financial information prepared in accordance with US GAAP that we use in the application of the equity method. The Company is not aware, however, of any errors in or possible misstatements of the financial information provided by TyC's equity affiliates that would have a material effect on Company's financial statements. For information concerning TyC's equity method investments, see Note 4.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inflation adjustment

Argentine generally accepted accounting principles require the restatement of assets and liabilities into constant Argentine pesos.

Under US GAAP, account balances and transactions are stated in the units of currency of the period when the transactions originated. This accounting model is commonly known as the historical cost basis of accounting. The Company has excluded the effect of the general price level restatement for the preparation of these financial statements in accordance with US GAAP.

Accounts receivable, net

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance amounted to A$6,810 and A$4,521 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon the Company's assessment of probable loss related to uncollectible accounts receivable. A number of factors are used in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued.

The Company has five clients whose balances aggregate approximately 40% and 79% of the total balances of accounts receivable, net, as of December 31, 2004 and 2003, respectively, and approximately 75%, 80% and 87% of the revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

Programming rights, net

The Company and certain equity investees have multi-year contracts for telecast rights of sporting events and rights to the image and sound archives related to all of the country's national soccer teams. Pursuant to these contracts, an asset is recorded for the rights acquired and a liability is recorded for the obligation incurred when the programs or sporting events are available for telecast. Program rights for sporting events which are for a specified number of games are amortized on an event-by-event basis, and those which are for a specified season or period are amortized over the term of such period on a straight-line basis.

Non-current programming rights represent telecast and production rights of sporting events available for telecast beyond one year from the balance sheet date.

Investments in affiliates accounted for under the equity method

Investments in affiliates in which TyC has the ability to exercise significant influence are accounted for using the equity method. Under this method, the investment, originally recorded at cost, is adjusted to recognize TyC's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of TyC's investment in, and advances and commitments to, the investee. If the investment in the common stock of an affiliate is reduced to zero as a result of the prior recognition of the affiliate's net losses, TyC would continue to record losses from the affiliate to the extent of its commitments to the affiliate and would include the negative investment in other liabilities.

Impairment of investments

The Company continually reviews its investments in affiliates to determine whether a decline in fair value below the cost basis is other than non-temporary. The primary factors that the Company considers in its determination are the length of time that the fair value of the investment is below Company's carrying value and the financial condition, operating performance and near term prospects of the investee, industry specific or investee specific changes in stock price or valuation subsequent to the balance sheet date, and Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery in fair value. In situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. Writedowns for equity method investments are included in Share of earning (losses) from equity affiliates, and a new cost basis in the investment is established.

Property and equipment, net

Property and equipment is recorded at cost, net of the respective accumulated depreciation.

Depreciation has been calculated on the straight-line method over the assets' estimated useful lives as follows:

	Estimated useful life (years)
Buildings	50
Furniture and fixtures	10
Technical equipment, vehicles and TV studio	5
Computer hardware	2 to 3

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

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144") requires the Company to periodically review the carrying amount of property and equipment, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the assets is greater than the expected undiscounted cash flow to be generated by such assets, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sales prices for similar assets or discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of the carrying amount or fair value less costs to sell.

Building held for sale

Represents a building received in connection with the transaction related to the sale of Red Celeste y Blanca S.A. ("La Red"), which is available for sale. It is recorded at its fair value at the date of the disposition of La Red, which does not exceed its fair value as of December 31, 2004. See Note 6.d.

Goodwill

Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired, in acquisitions of equity interests in subsidiaries and affiliates.

Impairment of Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, "indefinite lived intangible assets") no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Equity method goodwill is also no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement 144.

Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires the Company to consider equity method affiliates as separate reporting units.

The Company determined the fair value of its reporting units using discounted cash flows. The Company then compared the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeded its fair value, the Company performed the second step of the transitional impairment test. In the second step, the Company compared the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Based on this analysis, the Company recorded an impairment loss of A$101,737 for the year ended December 31, 2002 to write-off all of its then existing goodwill, including A$6,074 related to La Red that has been included in Discontinued operations, net of tax in the accompanying consolidated financial statements. Since this analysis used projections made during the time of unfavorable economic events in Argentina in early 2002, the adjustment was recognized as a component of operating costs and expenses and not as a transition adjustment.

As noted above, the Company's enterprise-level goodwill is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. The following table summarizes the allocation of the impairment loss recorded for the year ended December 31, 2002, corresponding to continuing operations.

Entity	Impairment loss
SAS	A$ 7,132
Sobre Golf S.A.	420
TSC	50,317
TRISA and Tele Net Image Corp.	37,794
Total enterprise-level goodwill	A$ 95,663

Income Taxes

The Company accounts for income taxes in accordance with the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax based assets and liabilities and are measured using the enacted tax rates.

Net deferred tax assets are reduced by a valuation allowance calculated based on the estimation of future results prepared by the Company's management. Deferred tax liabilities related to investments in equity investees that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future. See Note 9.

Minority interest

Recognition of the minority interest's share of losses of subsidiaries is generally limited to the amount of such minority interest's allocable portion of the common equity of those subsidiaries.

Foreign currency translation

The functional currency of the Company is the Argentine Peso. The functional currency of the Company's foreign equity affiliate T&T is the United States dollar. The Company's share of the assets and liabilities of T&T is translated at the spot rate in effect at the applicable reporting date and the Company's share of the results of operations of T&T is determined based on results translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment is recorded as a component of Accumulated other comprehensive losses, net of taxes, in the Company's statements of stockholders' equity.

Transactions denominated in currencies other than the Company's functional currency are recorded at the exchange rates prevailing at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations.

Revenue recognition

The Company's principal sources of revenue are:

Broadcasting Program rights: Broadcast program rights revenue are recognized when the matches are broadcasted.

Sport TV programs production: Revenue from sports TV programs production services are recognized when the services are rendered.

Others: Other revenue includes, among others, advertising and sports event organization. Advertising revenue, including the stadium based advertising, are recognized in the period during which underlying advertisements are broadcast. Sports events organization revenue are recognized when services are rendered.

Deferred income: corresponds to revenue collected by TyC in advance, whose recognition is deferred until matches or related advertising are available for telecast.

Earnings per share

The Company computes net income (loss) per share by dividing net income (loss) for the year by the weighted average number of common shares outstanding. There were no potential common shares outstanding during any of the periods presented.

3. Supplemental consolidated statements of cash flows disclosures

a) Income tax, minimum presumed income tax and interests

During the years ended December 31, 2004, 2003 and 2002, the Company paid A$4,352, A$3,716 and A$0 for income tax and minimum presumed income tax, respectively. Additionally, during the years ended December 31, 2004, 2003 and 2002 the Company paid A$732, A$498 and A$13,891, respectively, in interest related to operating activities.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

b) Noncash investing and financing activities

The Company sold all of its interest in La Red to Avila Inversora S.A. ("AISA") and Carlos Avila Enterprise S.A. ("CAE") (related companies, see Note 6) for consideration of A$6,640. In conjunction with the sale, receivables were originated and a building was received as follows:

Related party receivable	A$	3,700(1)
Building		2,940(2)
	A$	6,640

(1) The accounts receivable will be settled by AISA by effectively assuming the obligation to repay up to A$3,700 of principal and interest of a financial debt payable by TyC, currently in default. See Notes 6.d and 7. If as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V. S.A. ("América TV"), a related company of the purchasers.

(2) Fair value was determined based on an option held by TyC to return the building to CAE for an amount of US$1 million as per the related sales agreement signed between the parties. See note 6.d.

4. Investments in affiliates accounted for under the equity method

The following table includes TyC's carrying value and percentage ownership of its investments in affiliates:

	December 31, 2004			December 31, 2003	
	Percentage ownership	Carrying amount		Carrying amount	
TSC	50%	A$	10,062	A$	7,196
TRISA	50%		9,162		11,983
T&T	50%		1,902		(3,715)(1)
Others	—		6		6
Total		A$	21,132	A$	15,470

(1) As the Company's investment in T&T was negative as of December 31, 2003, it has been classified in Non-current liabilities-Investments in affiliates accounted for under the equity method because the Company is ready to provide financial support, as may be necessary, to allow T&T to continue operating as going concern.

The following table reflects TyC's share of earnings (losses) from equity affiliates:

	Year Ended December 31,					
	2004		2003		2002	
TSC	A$	2,868	A$	3,502	A$	(193)
TRISA		4,678		8,539		(10,084)
T&T		5,668		4,055		2,492
Sale of Pro Entertainment S.A.(1)		—		(5,706)		—
Others		(313)		(963)		(2,804)
Total	A$	12,901	A$	9,427	A$	(10,589)

(1) Relates to TyC forgiveness in 2003 of an accounts receivable maintained with Pro Entertainment S.A., as a result of the sale of such company by T&T in fiscal year 2002.

For the years ended December, 31, 2004, 2003 and 2002, the Company's share of earnings (losses) from equity affiliates includes losses related to other-than-temporary declines in the fair value of equity method investments of A$0, A$0 and A$2,493, respectively.

During the years ended December 31, 2004, 2003 and 2002, TRISA distributed cash dividends, of which the Company collected A$7,500, A$0 and A$2,718, respectively.

TSC

Summarized financial information for TSC follows:

	December 31, 2004	December 31, 2003
Financial Position		
Current assets(1)	A$ 50,111	A$ 45,716
Non-current assets	10,487	8,661
Total assets	A$ 60,598	A$ 54,377
Current portion of long term debt	A$ 11,500	A$ 5,728
Other current liabilities(2)	24,863	30,905
Non current liabilities	4,111	3,352
Stockholders' equity	20,124	14,392
Total liabilities and stockholders' equity	A$ 60,598	A$ 54,377

(1) Includes outstanding amounts receivable from Cablevisión S.A. ("Cablevisión"), a related party, of A$2,497 and A$2,497 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,893 and A$5,466 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31, 2004	2003	2002
Results of Operations			
Revenue(1)	A$ 127,023	A$ 128,762	A$ 117,833
Operating, selling, general and administrative expense(2)	(118,149)	(113,599)	(104,423)
Operating income	8,874	15,163	13,410
Interest expense	(2,459)	(4,638)	(14,773)
Interest income	56	984	680
Foreign exchange gain (loss)	35	(671)	2,370
Other, net	(123)	91	(1,701)
Income tax expense	(647)	(3,925)	(372)
Net income (loss)	**A$ 5,736**	**A$ 7,004**	**A$ (386)**

(1) Includes revenue from Cablevisión, a related party, for an amount of A$39,172, A$39,899 and A$29,052 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$10,468, A$10,205 and A$8,456 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

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TRISA

Summarized financial information for TRISA follows:

	December 31,	
	2004	2003
Financial Position		
Current assets(1)	A$ 68,196	A$ 80,357
Property and equipment, net	11,813	9,812
Investments	853	794
Other non-current assets	28,621	17,827
Total assets	A$ 109,483	A$ 108,790
Current portion of long term debt	A$ 4,348	A$ 4,272
Other current liabilities(2)	43,721	43,384
Non-current debt	25,986	29,808
Other non-current liabilities	17,105	7,359
Stockholders' equity	18,323	23,967
Total liabilities and stockholders' equity	A$ 109,483	A$ 108,790

(1) Includes outstanding amounts receivable from Cablevisión, a related party, of A$3,136 and A$3,036 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to TyC of A$3,202 and A$2,173 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,		
	2004	2003	2002
Results of Operations			
Revenue(1)	A$ 125,011	A$ 109,598	A$ 98,041
Operating, selling, general and administrative expenses(2)	(115,732)	(97,707)	(81,911)
Operating income	9,279	11,891	16,130
Interest expense	(5,490)	(3,451)	(2,291)
Interest income	2,367	4,487	4,379
Foreign exchange gain (loss)	(636)	5,379	(31,575)
Share of earnings (losses) from equity affiliates	61	(356)	(1,462)
Other, net	926	509	4,234
Income tax benefit (expense)	2,849	(1,381)	(9,583)
Net income (loss)	A$ 9,356	A$ 17,078	A$ (20,168)

(1) Includes revenues from Cablevisión, a related party, for an amount of A$32,938, A$34,126 and A$25,902 and from TyC for an amount of A$532, A$184 and A$149 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$14,272, A$10,119 and A$5,713 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

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T&T

In December 2004, the Company sold its ownership interest (50%) in T&T to an unrelated third party for cash proceeds of US$270 thousand. In connection with this sale, the Company retained a call right to repurchase the 50% interest in T&T for a price of US$285 thousand during the one-year period ended December 29, 2005. Due to the Company's unilateral ability to repurchase this interest and the favorable call price relative to the fair value of the interest, the Company did not meet the criteria for treating this transaction as a sale, and accordingly, has recorded the cash received as a current liability in the accompanying balance sheet as of December 31, 2004.

Summarized financial information for T&T follows:

	December 31,	
	2004	**2003**
Financial Position		
Current assets(1)	A$ 10,441	A$ 11,987
Non-current assets	60	1,411
Total assets	A$ 10,501	A$ 13,398
Current portion of long term debt	A$ —	288
Other current liabilities(2)	6,697	19,806
Non-current liabilities	—	735
Stockholders' equity	3,804	(7,431)
Total liabilities and stockholders' equity	A$ 10,501	A$ 13,398

(1) Includes outstanding amounts receivable from Fox Sports Latin America S.A. ("Fox Sports"), a related party, of A$0 and A$374 at December 31, 2004 and 2003, respectively. See Note 6.

(2) Includes outstanding amounts payable to Fox Sports, a related party, of A$3,675 and A$5,438 at December 31, 2004 and 2003, respectively. See Note 6.

	Year ended December 31,		
	2004	**2003**	**2002**
Results of Operations			
Revenue(1)	A$ 117,713	A$ 110,962	A$ 127,827
Operating, selling, general and administrative expenses(2)	(106,351)	(103,556)	(126,113)
Operating income	A$ 11,362	A$ 7,406	A$ 1,714
Share of earnings from equity affiliates	—	—	3,312
Other, net	(26)	705	(42)
Net income	A$ 11,336	A$ 8,111	A$ 4,984

(1) Includes revenues from Fox Sports, a related party, for an amount of A$93,933, A$85,689 and A$115,254 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

(2) Includes services provided by TyC for an amount of A$9,239, A$2,938 and A$3,227, for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Property and Equipment

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

	December 31, 2004	December 31, 2003
Buildings	A$ 14,544	A$ 14,794
Furniture and fixtures	7,267	5,311
Technical equipment, vehicles and TV studio	7,339	6,109
Computer hardware	1,367	1,429
Total property and equipment	30,517	27,643
Less: Accumulated depreciation	(14,827)	(11,729)
Net property and equipment	A$ 15,690	A$ 15,914

Loans amounting to A$2,856 are secured by certain of the Company's premises. See Note 7.

6. Related Party Transactions

(a) Company's affiliated entities:

Detailed information about Company's affiliated entities is provided in Note 4.

(b) Balances and transactions with related parties

Entities in which TyC has significant influence: TSC, TRISA, T&T and Theme Bar Management S.A.

Companies with common shareholders or directors: Cablevisión, Pramer S.C.A. and the following companies pertaining to the Fox Group: Fox Pan American Sports LLC, Fox Sports, International Sports Programming LLC and Fox Sports International Distribution Ltd. (hereinafter referred to individually or together as "FPAS").

Companies with equity interests in TyC, either direct or indirect: LMI.

Companies where TyC's chairman has an equity interest, either direct or indirect: CAE, AISA and América TV.

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company entered into transactions in the normal course of business with related parties. The following is a summary of the balances and transactions with related parties:

	December 31, 2004	December 31, 2003
Receivables — Current:		
América TV	A$ 1,458	A$ 1,091
TRISA	3,202	2,173
TSC	3,893	5,466
FPAS	5,047	—
AISA	1,550(1)	357
Others	276	—
	A$ 15,426	**A$ 9,087**
Receivables — Non Current:		
América TV	A$ 735	A$ 774
AISA	2,150(1)	—
	A$ 2,885	**A$ 774**
Payables — Current:		
América TV	A$ 1,297	A$ 312
FPAS	4,207	14,921
Others	712	647
	A$ 6,216	**A$ 15,880**

(1) Accounts receivable related to the sale of La Red — See item (d) below in this note.

See Note 7 regarding Related Party Loans.

Revenue	Transaction description	Year ended December 31, 2004	2003	2002
TRISA	Advertising, Production, Rights and Others	A$ 14,272	10,119	5,713
TSC	Production and Rights	10,468	10,205	8,456
T&T	Production and Rights	9,239	2,938	3,227
América TV	Production	1	855	343
FPAS	Advertising, Production, Rights and Others	40,918	52,679	51,783
Others		43	181	452
		A$ 74,941	A$ 76,977	A$ 69,974

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Services received	Transaction Description	Year ended December 31, 2004	2003	2002
Operating (other than depreciation) expenses				
América TV		A$ (282)	(1,477)	(849)
TRISA	Production and rights	(532)	(184)	(149)
Pramer S.C.A.	Production	—	(15)	(255)
	Total operating (other than depreciation) expenses	A$ (814)	(1,676)	(1,253)
Selling, general and administrative expenses				
CAE	Other	A$ (39)	(100)	(296)
Others	Rights and others	(31)	(43)	(104)
	Total selling, general and administrative expenses	A$ (70)	A$ (143)	A$ (400)

The Company believes that the transactions discussed above were made on terms no less favorable to the Company than would have been obtained from unaffiliated third parties.

(c) Agreement with FPAS

In April 2003, TyC agreed with FPAS to forgive four monthly payments that were due from April to July 2004 pursuant to a contract that expired in July 2004. TyC has recognized the forgiven payments as a reduction of revenue from the date of the agreement through July 2004 on a straight-line basis.

(d) Discontinued operations — Sale of La Red

On January 7, 2004, TyC sold its interest in La Red to CAE and AISA.

As stated in the sales agreement, the sales price was A$8.7 million, comprised of: a) A$5.0 million through the transfer of a building (see Building held for sale — Note 2), and b) A$3.7 million, which will be paid by AISA through the assumption of a financial debt held by TyC, currently in default (see Note 7). As provided in such agreement, if as a result of the renegotiation of the loan in default, TyC pays an amount lower than A$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V., a related company of the purchasers, as determined based on fair market value. As collateral for payment, all transferred shares were pledged in favor of the seller.

Additionally, as per the agreement, TyC had the option to return the building to CAE for consideration of US$1 million, equivalent to A$2,940 as of the date of the transaction, in the event that during the one-year period ending January 7, 2005, TyC was not able to sell such building. TyC considered this amount to be the fair value of the building as of the date of the transaction.

The difference between the book value of the Company’s equity interest in La Red as of the date of disposition and the fair value of the total consideration received amounts to A$3,939. The Company considered the earnings process was not substantially complete with respect to the uncollected A$3.7 million related party receivable. Consequently, the Company recognized a gain of A$239, which is included in Discontinued operations, net of tax; and deferred a gain of A$3,700, which is included in Liabilities associated with discontinued operations, in the accompanying consolidated balance sheet as of December 31, 2004.

As mentioned in Note 11, in January 2005, the building was sold for cash consideration of A$6.0 million.

As a result of this transaction, the Company has disposed of its entire radio broadcasting business. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of La Red have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operation and statements of cash flows and have been reported separately in such consolidated financial statements. In addition, unless specifically noted, amounts disclosed in the notes to the accompanying consolidated financial statements are for continuing operations.

The following table summarizes certain information related to discontinued operations:

	December 31, 2003
Current assets	A$ 4,357
Non-current assets	1,552
Total assets	A$ 5,909
Current liabilities	A$ 2,790
Non-current liabilities	418
Total liabilities	A$ 3,208
Stockholders' equity	A$ 2,701

	Year ended December 31, 2003	Year ended December 31, 2002
Revenue	A$ 5,672	A$ 3,820
Pre-tax loss (including impairment of goodwill of A$6,074 in 2002)	A$ (253)	A$ (9,658)
Loss from discontinued operations, net of tax	A$ (604)	A$ (9,658)

7. Debt

The Company's debt as of December 31, 2004 and 2003 is summarized below:

	2004	2003
Bank loans	A$ 8,333	A$ 9,024
Related Party	8,419	8,306
Total	A$ 16,752	A$ 17,330

Bank Loans:

The bank debt is denominated in Argentine pesos with interest rates ranging from 9% to 11% and maturities as follows:

Past due	A$ 4,927
2005	A$ 3,406
Total debt	A$ 8,333(1)

(1) Includes A$2,635 for which one of the purchasers of La Red has effectively assumed the obligation to repay up to A$3,700 of principal and interest. See Note 6.

The total amount of loans denominated in Argentine pesos at December 31, 2004 includes A$4,927 corresponding to loans that are in default and are being renegotiated. Such loans are classified as current liabilities.

Loans amounting to A$2,856 are secured by certain of the Company's premises.

Related Party Loans:

Represents loans primarily from LMI. The loans from LMI, which bear interest at 9% and are denominated in US dollars, are past due. Such loans are classified as current liabilities.

TyC believes that the carrying amount of debt approximates fair value at December 31, 2004, with the exception of related party loans and bank loans in default, for which TyC considers that it is not practical to estimate fair value.

8. Stockholders' equity

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common stock plus inflation adjustment of common stock accounts, and additional Paid-in Capital). This legal reserve may be used only to absorb accumulated deficits.

Additionally, under Argentine Commercial Law, in the event that accumulated deficit is higher than 50% of common stock, plus 100% of additional paid-in-capital and legal reserve, the Company is required to absorb the related accumulated deficit against such equity accounts. Consequently on July 8, 2004, TyC stockholders approved the absorption of accumulated deficit in the amount of A$109,409, by offsetting such balance against additional paid-in-capital and legal reserve outstanding as of that date.

9. Income tax

Income tax expense for the years ended December 31, 2004, 2003 and 2002 consists of the following:

	Year ended December 31,		
	2004	2003	2002
Current tax expense	A$ (4,231)	A$ (3,611)	A$ —
Deferred tax expense	(694)	(4,170)	(1,698)
Sub-total	(4,925)	(7,781)	(1,698)
Minimum presumed income tax	(102)	(105)	—
Income tax expense	A$ (5,027)	A$ (7,886)	A$ (1,698)

TORNEOS Y COMPETENCIAS S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The tax effects of temporary differences and tax loss carryforwards that give rise to significant portions of the Company's deferred tax assets and liabilities are presented below:

	December 31, 2004	December 31, 2003
Allowance for doubtful accounts	A$ 2,506	A$ 1,467
Directors' fees	—	660
Accumulated tax losses	499	567
Accumulated tax losses from the sale of controlled subsidiaries	5,754	—
Items accrued not yet deducted	597	884
Deferred income	—	1,202
Programming rights	(2,133)	(1,623)
Unpaid interest on foreign loans from related parties	1,290	—
Others	48	91
Sub-total	8,561	3,248
Less: Valuation allowance on deferred tax asset	(7,201)	(1,194)
Net deferred tax asset at tax rate (35%)	A$ 1,360	A$ 2,054

Income tax expense (benefit) for the years ended December 31, 2004, 2003 and 2002 differ from the amounts computed by applying the Company's statutory income tax rate to pre-tax income (loss) as a result of the following:

	2004	2003	2002
Income (loss) before taxes and discontinued operations	A$ 21,623	A$ 28,441	A$ (122,230)
Prevailing tax rate	35%	35%	35%
Expected tax benefit (expense) from continuing operations	(7,568)	(9,954)	42,781
Impairment of intangible assets	—	—	(33,482)
Increase in accumulated tax losses from the sale of controlled subsidiaries	5,754	—	—
Imputed interest	—	(246)	(1,075)
Directors' fees	—	—	(1,268)
Share of earnings (losses) from equity affiliates	4,515	3,299	(3,706)
Non-recoverable receivables	(236)	(363)	(1,824)
Non-deductible expenses	(1,485)	(467)	(2,747)
Change in valuation allowance on deferred tax assets	(6,007)	(155)	(377)
Income tax expense from continuing operations	A$ (5,027)	A$ (7,886)	A$ (1,698)

As of December 31, 2004, the Company has accumulated tax loss carryforwards of A$17.9 million (equivalent to A$6.3 million at prevailing tax rate), which expire through year 2009.

The Company is subject to a minimum presumed income tax. This tax is supplementary to income tax. The tax is calculated by applying the effective tax rate of 1% on certain production assets valued according to the tax regulations in effect as of the end of each year. The Company's tax liabilities will be the higher of income tax or minimum presumed income tax. However, if the minimum presumed income tax exceeds income tax during any fiscal year, such excess may be computed as a prepayment of any income tax excess over the minimum presumed income tax that may arise in the next ten fiscal years. Each of TyC and its controlled companies file separate tax returns. The minimum presumed income tax charge for the years ended December 31, 2004 and 2003 correspond to controlled companies that generate tax losses.

10. Commitments and contingencies

(a) Long-term Rights Contracts

The Company has long-term rights contracts which require payments through 2010. Future minimum payments, including unrecorded amounts, by year are as follows at December 31, 2004:

Year ending December 31:

2005	A$	8,625
2006	A$	16,755
2007	A$	5,589
2008	A$	1,589
2009	A$	1,589
Thereafter	A$	723

Additionally, TyC has long-term rights contracts which require, for the period from 2007 to 2014, payments of 50% of the revenue derived form the related rights.

(b) Litigation

The Company has contingent liabilities related to legal and other matters arising in the ordinary course of business. A liability of A$2,664 has been included in the Company’s consolidated balance sheet as of December 31, 2004 to provide for probable and estimable potential losses under these claims.

In addition, the Company is subject to other claims and legal actions that have arisen in the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company’s management based upon the information available at this time and consultation with external legal counsel, that the expected outcome of these other claims and legal actions, individually or in the aggregate, will not have a material effect on the Company’s financial position or results of operations. Accordingly, no additional liabilities have been established for the outcome of these matters.

11. Subsequent Events

(a) Sale of building held for sale

On January 6, 2005 the Company sold to a third party the building held for sale included in current assets in the accompanying consolidated financial statements, for cash consideration of A$6 million.

(b) Agreement with FPAS

The Company’s contracts with FPAS for the provision of production of content, advertising sales and operating and administrative service to the signal Fox Sports expired on December 31, 2004. On January 1, 2005, the Company signed new service agreements with FPAS that expire in December 2010. The annual payments due to the Company under these contracts are as follows:

Amounts in thousands of US$

	2004	2005
Administrative services	658	658
Production of content	4,344	5,544
Advertising commission (range)	From 17.5% to 20%	From 17.5% to 20%

Regarding production of content, the amount of the payments increases to US$5,844 thousand and US$6,244 thousand for years 2006 and 2007, respectively, and to US$6,744 thousand for years 2008 to 2010.

The value of administrative services will not change throughout the period from 2005 to 2010.

In the case of certain changes in the direct or indirect TyC ownership, FPAS has the right to terminate any or all service agreements by delivering written notice 60 days prior to such termination.

On January 1, 2005 the Company also extended from 2007 to 2010 the revenue agreements related to *Clásico del Domingo* and *Futbol de Primera* rights for América (except Argentina) and the Summer Soccer rights for América in the same terms and conditions prevailing in the former agreements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation) and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements, before the revision described in Note 7 to the 2003 consolidated financial statements, in their report dated April 12, 2002 (except with respect to the matter discussed in Note 23 to those consolidated financial statements, as to which the date was May 14, 2002). Such report included an explanatory paragraph indicating substantial doubt about the Company's ability to continue as a going concern.

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

In our opinion, the 2003 and 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, in 2002, the Company changed its method of accounting for goodwill and other intangible assets and in 2003, changed its method of accounting for gains and losses on the early extinguishments of debt.

As discussed above, the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries were audited by other auditors who have ceased operations. As described in Note 6, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, which was adopted by the Company as of January 1, 2002. In our opinion, the disclosures for 2001 in Note 6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries other than with respect to such disclosures, and, accordingly, we do not express an opinion or any other form of assurance on the 2001 consolidated financial statements taken as a whole.

KPMG LLP

Denver, Colorado
March 8, 2004

The following is a copy of the Report of Independent Public Accountants previously issued by Arthur Andersen LLP in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 2001, as amended in connection with Amendment No. 1 to the Company's Form S-1 Registration Statement filed on June 6, 2002. The report of Andersen is included in this Annual Report on Form 10-K pursuant to Rule 2-02(e) of Regulation S-X. This Audit Report has not been reissued by Arthur Andersen LLP. The information previously contained in Note 23 to those consolidated financial statements is provided in Note 4 to our 2003 consolidated financial statements. The information previously contained in Note 2 to those consolidated financial statements is not included in our 2003 consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To UnitedGlobalCom, Inc.:

We have audited the accompanying consolidated balance sheets of UnitedGlobalCom, Inc. (a Delaware corporation f/k/a New UnitedGlobalCom, Inc. — see Note 23) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive (loss) income, stockholders' (deficit) equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 3 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities effective January 1, 2001.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, is currently in default under certain of its significant bank credit facilities, senior notes and senior discount note agreements, which has resulted in a significant net working capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

ARTHUR ANDERSEN LLP

Denver, Colorado
April 12, 2002 (except with respect
to the matter discussed in Note 23,
as to which the date is May 14, 2002)

UNITEDGLOBALCOM, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(In thousands, except par value and number of shares)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 310,361	$ 410,185
Restricted cash	25,052	48,219
Marketable equity securities and other investments	208,459	45,854
Subscriber receivables, net of allowance for doubtful accounts of $51,109 and $71,485, respectively	140,075	136,796
Related party receivables	1,730	15,402
Other receivables	63,427	50,759
Deferred financing costs, net	2,730	62,996
Other current assets, net	76,812	95,340
Total Current Assets	828,646	865,551
Long-Term Assets		
Property, plant and equipment, net	3,342,743	3,640,211
Goodwill	2,519,831	1,250,333
Intangible assets, net	252,236	13,776
Other assets, net	156,215	161,723
Total Assets	$ 7,099,671	$ 5,931,594
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Not subject to compromise:		
Accounts payable	$ 224,092	$ 190,710
Accounts payable, related party	1,448	1,704
Accrued liabilities	405,546	328,927
Subscriber prepayments and deposits	141,108	127,553
Short-term debt	—	205,145
Notes payable, related party	102,728	102,728
Current portion of long-term debt	310,804	3,366,235
Other current liabilities	82,149	16,448
Total Current Liabilities not Subject to Compromise	1,267,875	4,339,450
Subject to compromise:		
Accounts payable and accrued liabilities	14,445	271,250
Short-term debt	5,099	—
Current portion of long-term debt	317,372	2,812,988
Total Current Liabilities Subject to Compromise	336,916	3,084,238
Long-Term Liabilities		
Not subject to compromise:		
Long-term debt	3,615,902	472,671
Net negative investment in deconsolidated subsidiaries	—	644,471
Deferred taxes	124,232	107,596
Other long-term liabilities	259,493	165,896
Total Long-Term Liabilities not Subject to Compromise	3,999,627	1,390,634
Guarantees, commitments and contingencies (Note 13)		
Minority interests in subsidiaries	22,761	1,402,146
Stockholders' Equity (Deficit)		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, nil shares issued and outstanding	—	—
Class A common stock, $0.01 par value, 1,000,000,000 shares authorized, 287,350,970 and 110,392,692 shares issued, respectively	2,873	1,104
Class B common stock, $0.01 par value, 1,000,000,000 shares authorized, 8,870,332 shares issued	89	89
Class C common stock, $0.01 par value, 400,000,000 shares authorized, 303,123,542 shares issued and outstanding	3,031	3,031
Additional paid-in capital	5,852,896	3,683,644
Deferred compensation	—	(28,473)
Treasury stock, at cost	(70,495)	(34,162)
Accumulated deficit	(3,372,737)	(6,797,762)
Accumulated other comprehensive income (loss)	(943,165)	(1,112,345)
Total Stockholders' Equity (Deficit)	1,472,492	(4,284,874)
Total Liabilities and Stockholders' Equity (Deficit)	$ 7,099,671	$ 5,931,594

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31, 2003	2002	2001
	(In thousands, except per share data)		
Statements of Operations			
Revenue	$ 1,891,530	$ 1,515,021	$ 1,561,894
Operating expense	(768,838)	(772,398)	(1,062,394)
Selling, general and administrative expense	(493,810)	(446,249)	(690,743)
Depreciation and amortization — Operating expense	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets — Operating expense	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other — Operating expense	(35,970)	(1,274)	(204,127)
Stock-based compensation — Selling, general and administrative expense	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest income, including related party income of $985, $2,722 and $35,336, respectively	13,054	38,315	104,696
Interest expense, including related party expense of $8,218, $24,805 and $58,834, respectively	(327,132)	(680,101)	(1,070,830)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Provision for loss on investments	—	(27,083)	(342,419)
Other (expense) income, net	(14,884)	(93,749)	76,907
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Reorganization expense, net	(32,009)	(75,243)	—
Income tax (expense) benefit, net	(50,344)	(201,182)	40,661
Minority interests in subsidiaries, net	183,182	(67,103)	496,515
Share in results of affiliates, net	294,464	(72,142)	(386,441)
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	—	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Earnings per share (Note 20):			
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	—	(3.13)	0.18
Basic net income (loss) per share	$ 7.41	$ (0.84)	$ (41.29)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 7.41	$ 2.29	$ (41.47)
Cumulative effect of change in accounting principle	—	(3.12)	0.18
Diluted net income (loss) per share	$ 7.41	$ (0.83)	$ (41.29)
Statements of Comprehensive Income			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	61,440	(864,104)	11,157
Change in fair value of derivative assets	10,616	13,443	(24,059)
Change in unrealized gain on available-for-sale securities	97,318	4,029	37,526
Other	(194)	(77)	271
Comprehensive income (loss)	$ 2,164,548	$ (1,203,163)	$ (4,469,814)

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital	Deferred Compensation	Class A Treasury Stock	
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount
	(In thousands, except number of shares)									
December 31, 2002	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644	$ (28,473)	7,404,240	$ (34,162)
Issuance of Class A common stock for subsidiary preference shares	2,155,905	21	—	—	—	—	6,082	—	—	—
Issuance of Class A common stock in connection with stock option plans	311,454	3	—	—	—	—	1,351	—	—	—
Issuance of Class A common stock in connection with 401(k) plan	58,272	1	—	—	—	—	258	—	—	—
Issuance of common stock by UGC Europe for debt and other liabilities	—	—	—	—	—	—	966,362	—	—	—
Equity transactions of subsidiaries	—	—	—	—	—	—	(129,904)	1,896	—	—
Amortization of deferred compensation	—	—	—	—	—	—	—	26,577	—	—
Receipt of common stock in satisfaction of executive loans	—	—	—	—	—	—	—	—	188,792	—
Issuance of Class A common stock in connection with the UGC Europe exchange offer	174,432,647	1,744	—	—	—	—	1,325,103	—	4,780,611	(36,333)
Net income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—
Change in fair value of derivative assets	—	—	—	—	—	—	—	—	—	—
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	—	—	—	—
Amortization of cumulative effect of change in accounting principle	—	—	—	—	—	—	—	—	—	—
December 31, 2003	287,350,970	$ 2,873	8,870,332	$ 89	303,123,542	$ 3,031	$ 5,852,896	$ —	12,373,643	$ (70,495)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Class B Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
			(In thousands, except number of shares)		
December 31, 2002	—	$ —	$ (6,797,762)	$ (1,112,345)	$ (4,284,874)
Issuance of Class A common stock for subsidiary preference shares	—	—	1,423,102	—	1,429,205
Issuance of Class A common stock in connection with stock option plans	—	—	—	—	1,354
Issuance of Class A common stock in connection with 401(k) plan	—	—	—	—	259
Issuance of common stock by UGC Europe for debt and other liabilities	—	—	—	—	966,362
Equity transactions of subsidiaries	—	—	6,555	—	(121,453)
Amortization of deferred compensation	—	—	—	—	26,577
Receipt of common stock in satisfaction of executive loans	672,316	—	—	—	—
Issuance of Class A common stock in connection with the UGC Europe exchange offer	—	—	—	—	1,290,514
Net income	—	—	1,995,368	—	1,995,368
Foreign currency translation adjustments	—	—	—	61,440	61,440
Change in fair value of derivative assets	—	—	—	10,616	10,616
Unrealized gain (loss) on available-for-sale securities	—	—	—	97,318	97,318
Amortization of cumulative effect of change in accounting principle	—	—	—	(194)	(194)
December 31, 2003	672,316	$ —	$ (3,372,737)	$ (943,165)	$ 1,472,492

Accumulated Other Comprehensive Income (Loss)

	December 31, 2003	December 31, 2002
	(In thousands)	
Foreign currency translation adjustments	$ (1,057,074)	$ (1,118,514)
Fair value of derivative assets	—	(10,616)
Other	113,909	16,785
Total	$ (943,165)	$ (1,112,345)

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) — (Continued)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Class C Common Stock		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
	(In thousands, except number of shares)										
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	—	$ —	$ 1,537,944
Accrual of dividends on Series B, C and D convertible preferred stock	—	—	—	—	—	—	—	—	—	—	(156)
Merger/reorganization transaction	(425,000)	(425,000)	(287,500)	(287,500)	11,628,674	116	(10,156,802)	(101)	21,835,384	218	770,448
Issuance of Class C common stock for financial assets	—	—	—	—	—	—	—	—	281,288,158	2,813	1,396,469
Issuance of Class A common stock in exchange for remaining interest in Old UGC	—	—	—	—	600,000	6	—	—	—	—	(6)
Issuance of Class A common stock in connection with 401(k) plan	—	—	—	—	121,813	1	—	—	—	—	340
Equity transactions of subsidiaries and other	—	—	—	—	—	—	—	—	—	—	(21,395)
Amortization of deferred compensation	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—	—	—
Change in fair value of derivative assets	—	—	—	—	—	—	—	—	—	—	—
Change in unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	—	—	—	—
Amortization of cumulative effect of change in accounting principle	—	—	—	—	—	—	—	—	—	—	—
Balances, December 31, 2002	—	$ —	—	$ —	110,392,692	$ 1,104	8,870,332	$ 89	303,123,542	$ 3,031	$ 3,683,644

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred Compensation	Treasury Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
		Shares	Amount			
	(In thousands, except number of shares)					
Balances, December 31, 2001	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,290)	$ (265,636)	$ (4,555,480)
Accrual of dividends on Series B, C and D convertible preferred stock	—	—	—	(4,018)	—	(4,174)
Merger/reorganizatio transaction	—	(35,708)	923	—	—	59,104
Issuance of Class C common stock for financial assets	—	—	—	—	—	1,399,282
Issuance of Class A common stock in exchange for remaining interest in Old UGC	—	—	—	—	—	—
Issuance of Class A common stock in connection with 401(k) plan	—	—	—	—	—	341
Equity transactions of subsidiaries and other	12,794	—	—	—	—	(8,601)
Amortization of deferred compensation	32,918	—	—	—	—	32,918
Purchase of treasury shares	—	1,835,000	(5,101)	—	—	(5,101)
Net income	—	—	—	(356,454)	—	(356,454)
Foreign currency translation adjustments	—	—	—	—	(864,104)	(864,104)
Change in fair value of derivative assets	—	—	—	—	13,443	13,443
Change in unrealized gain on available-for-sale securities	—	—	—	—	4,029	4,029
Amortization of cumulative effect of change in accounting principle	—	—	—	—	(77)	(77)
Balances, December 31, 2002	$ (28,473)	7,404,240	$ (34,162)	$ (6,797,762)	$ (1,112,345)	$ (4,284,874)

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

UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) — (Continued)

	Series C Preferred Stock		Series D Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
					(In thousands, except number of shares)				
Balances, December 31, 2000	425,000	$ 425,000	287,500	$ 287,500	83,820,633	$ 838	19,221,940	$ 192	$ 1,531,593
Exchange of Class B common stock for Class A common stock	—	—	—	—	194,806	2	(194,806)	(2)	—
Issuance of Class A common stock in connection with stock option plans and 401(k) plan	—	—	—	—	76,504	1	—	—	386
Issuance of Class A common stock for cash	—	—	—	—	11,991,018	120	—	—	19,905
Accrual of dividends on Series B, C and D convertible preferred stock	—	14,875	—	10,063	—	—	—	—	(1,873)
Issuance of Class A common stock in lieu of cash dividends on Series C and D convertible preferred stock	—	(14,875)	—	(10,063)	1,959,244	20	—	—	24,918
Equity transactions of subsidiaries and others	—	—	—	—	—	—	—	—	(29,122)
Amortization of deferred compensation	—	—	—	—	—	—	—	—	(1,292)
Loans to related parties, collateralized with common shares and options	—	—	—	—	—	—	—	—	(6,571)
Net loss	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	—
Change in fair value of derivative assets	—	—	—	—	—	—	—	—	—
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	—	—	—	—	—
Cumulative effect of change in accounting principle	—	—	—	—	—	—	—	—	—
Amortization of cumulative effect of change in accounting principle	—	—	—	—	—	—	—	—	—
Balances, December 31, 2001	425,000	$ 425,000	287,500	$ 287,500	98,042,205	$ 981	19,027,134	$ 190	$ 1,537,944

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deferred Compensation	Treasury Stock		Accumulated Deficit	Other Comprehensive Income (Loss)	Total
		Shares	Amount			
			(In thousands, except number of shares)			
Balances, December 31, 2000	$ (117,136)	5,604,948	$ (29,984)	$ (1,892,706)	$ (290,531)	$ (85,234)
Exchange of Class B common stock for Class A common stock	—	—	—	—	—	—
Issuance of Class A common stock in connection with stock option plans and 401(k) plan	—	—	—	—	—	387
Issuance of Class A common stock for cash	—	—	—	—	—	20,025
Accrual of dividends on Series B, C and D convertible preferred stock	—	—	—	(49,875)	—	(26,810)
Issuance of Class A common stock in lieu of cash dividends on Series C and D convertible preferred stock	—	—	—	—	—	—
Equity transactions of subsidiaries and others	22,159	—	—	—	—	(6,963)
Amortization of deferred compensation	20,792	—	—	—	—	19,500
Loans to related parties, collateralized with common shares and options	—	—	—	—	—	(6,571)
Net loss	—	—	—	(4,494,709)	—	(4,494,709)
Foreign currency translation adjustments	—	—	—	—	11,157	11,157
Change in fair value of derivative assets	—	—	—	—	(24,059)	(24,059)
Unrealized gain (loss) on available-for-sale securities	—	—	—	—	37,526	37,526
Cumulative effect of change in accounting principle	—	—	—	—	523	523
Amortization of cumulative effect of change in accounting principle	—	—	—	—	(252)	(252)
Balances, December 31, 2001	$ (74,185)	5,604,948	$ (29,984)	$ (6,437,290)	$ (265,636)	$ (4,555,480)

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

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UNITEDGLOBALCOM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Cash Flows from Operating Activities			
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Stock-based compensation	38,024	28,228	8,818
Depreciation and amortization	808,663	730,001	1,147,176
Impairment of long-lived assets	402,239	437,427	1,525,069
Accretion of interest on senior notes and amortization of deferred financing costs	50,733	234,247	492,387
Unrealized foreign exchange (gains) losses, net	(84,258)	(745,169)	125,722
Loss on derivative securities	12,508	115,458	—
Gain on extinguishment of debt	(2,183,997)	(2,208,782)	3,447
(Gain) loss on sale of investments in affiliates and other assets, net	(279,442)	(117,262)	416,803
Provision for loss on investments	—	27,083	342,419
Reorganization expenses, net	32,009	75,243	—
Deferred tax provision	(18,161)	104,068	(43,167)
Minority interests in subsidiaries, net	(183,182)	67,103	(496,515)
Share in results of affiliates, net	(294,464)	72,142	386,441
Cumulative effect of change in accounting principle	—	1,344,722	(20,056)
Change in assets and liabilities:			
Change in receivables, net	49,238	42,175	68,137
Change in other assets	(8,368)	4,628	2,489
Change in accounts payable, accrued liabilities and other	55,182	(148,466)	(135,604)
Net cash flows from operating activities	392,092	(293,608)	(671,143)
Cash Flows from Investing Activities			
Purchase of short-term liquid investments	(1,000)	(117,221)	(1,691,751)
Proceeds from sale of short-term liquid investments	45,561	152,405	1,907,171
Restricted cash released (deposited), net	24,825	40,357	(74,996)
Investments in affiliates and other investments	(20,931)	(2,590)	(60,654)
Proceeds from sale of investments in affiliated companies	45,447	—	120,416
New acquisitions, net of cash acquired	(2,150)	(22,617)	(39,950)
Capital expenditures	(333,124)	(335,192)	(996,411)
Purchase of interest rate caps	(9,750)	—	—
Settlement of interest rate caps	(58,038)	—	—
Other	7,806	27,595	(45,192)
Net cash flows from investing activities	(301,354)	(257,263)	(881,367)
Cash Flows from Financing Activities			
Issuance of common stock	1,354	200,006	24,054
Proceeds from notes payable to shareholder	—	102,728	—
Proceeds from short-term and long-term borrowings	23,161	42,742	1,673,981
Retirement of existing senior notes	—	(231,630)	(261,309)
Financing costs	(2,233)	(18,293)	(17,771)
Repayments of short-term and long-term borrowings	(233,506)	(90,331)	(766,950)
Other	—	—	(6,571)
Net cash flows from financing activities	(211,224)	5,222	645,434
Effects of Exchange Rates on Cash	20,662	35,694	(49,612)
Decrease in Cash and Cash Equivalents	(99,824)	(509,955)	(956,688)
Cash and Cash Equivalents, Beginning of Year	410,185	920,140	1,876,828
Cash and Cash Equivalents, End of Year	$ 310,361	$ 410,185	$ 920,140
Supplemental Cash Flow Disclosure			
Cash paid for reorganization expenses	$ 27,084	$ 33,488	$ —
Cash paid for interest	$ 185,591	$ 304,274	$ 519,221
Cash paid for income taxes	$ 1,947	$ 14,260	$ —
Non-Cash Investing and Financing Activities			
Issuance of subsidiary common stock for financial assets	$ 966,362	$ —	$ —
Issuance of common stock for acquisitions	$ 1,326,847	$ 1,206,441	$ —

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

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

UnitedGlobalCom, Inc. (together with its subsidiaries the "Company", "UGC", "we", "us", "our" or similar terms) was formed in February 2001 as part of a series of planned transactions with Old UGC, Inc. ("Old UGC", formerly known as UGC Holdings, Inc., now our wholly owned subsidiary) and Liberty Media Corporation (together with its subsidiaries and affiliates "Liberty"), which restructured and recapitalized our business. We are an international broadband communications provider of video, voice and Internet services with operations in 15 countries outside the United States. UGC Europe, Inc. (together with its subsidiaries "UGC Europe"), our largest consolidated operation, is a pan-European broadband communications company. Through its broadband networks, UGC Europe provides video, high-speed Internet access, telephone and programming services. UGC Europe's operations are currently organized into two principal divisions — UPC Broadband and chellomedia. UPC Broadband delivers video, high-speed Internet access and telephone services to residential customers. chellomedia provides broadband Internet and interactive digital products and services, produces and markets thematic channels, operates our digital media center and operates a competitive local exchange carrier business providing telephone and data network solutions to the business market under the brand name Priority Telecom. Our primary Latin American operation, VTR GlobalCom S.A. ("VTR"), provides multi-channel television, high-speed Internet access and residential telephone services in Chile. We also have an approximate 19% interest in SBS Broadcasting S.A. ("SBS"), a European commercial television and radio broadcasting company, and an approximate 34% interest in Austar United Communications Ltd. ("Austar United"), a pay-TV provider in Australia.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used in accounting for, among other things, allowances for uncollectible accounts, deferred tax valuation allowances, loss contingencies, fair values of financial instruments, asset impairments, useful lives of property, plant and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents, Restricted Cash, Marketable Equity Securities and Other Investments

Cash and cash equivalents include cash and highly liquid investments with original maturities of less than three months. Restricted cash includes cash held as collateral for letters of credit and other loans, and is classified based on the expected expiration of such facilities. Cash held in escrow and restricted to a specific use is classified based on the expected timing of such disbursement. Marketable equity securities and other investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

Marketable equity securities and other investments are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these marketable equity securities and other investments are reported as a separate component of stockholders' equity. Declines in the fair value of marketable equity securities and other investments that are other than temporary are recognized in the statement of operations, thus establishing a new cost basis for such investment. These marketable equity securities and other investments are evaluated on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the historical volatility of the price of each security and any market and company specific factors related to each security. Declines in the fair value of investments below cost basis for a period of less than six months are considered to be temporary. Declines in the fair value of investments for a period of six to nine months are evaluated on a case-by-case basis to determine whether any company or market-specific factors exist that would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for greater than nine months are considered other than temporary and are recorded as charges to the statement of operations, absent specific factors to the contrary.

We estimate fair value amounts using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these consolidated financial statements are not necessarily indicative of the amounts we could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. Generally, upon disconnection of a subscriber, the account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer pursued. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions, replacements and improvements that extend asset lives are capitalized and costs for normal repair and maintenance are charged to expense as incurred. Costs associated with the construction of cable networks, transmission and distribution facilities are capitalized (including capital leases). Depreciation is calculated using the straight-line method over the economic useful life of the asset. Costs associated with new cable, telephone and Internet access subscriber installations are capitalized and depreciated over the average expected subscriber life. Subscriber installation costs include direct labor, materials (such as cabling, wiring, wall plates and fittings) and related overhead (such as indirect labor, logistics and inventory handling).

The economic lives of property, plant and equipment at acquisition are as follows:

Customer premise equipment	4-10 years
Commercial	3-20 years
Scaleable infrastructure	3-20 years
Line extensions	5-20 years
Upgrade/rebuild	3-20 years
Support capital	1-33 years

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assets we intend to use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, we recognize a loss for the difference between the fair value and carrying value of the asset. For assets we intend to dispose of, we recognize a loss for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets.

Goodwill and Other Intangible Assets

Goodwill is the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Other intangible assets consist principally of customer relationships, trademarks and computer software. Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. We adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), effective January 1, 2002. Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized, but are tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is performed on a reporting unit level on an annual basis. Goodwill and other indefinite-lived intangible assets are tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Investments in Affiliates, Accounted for under the Equity Method

For those investments in unconsolidated subsidiaries and companies in which our voting interest is 20% to 50%, our investments are held through a combination of voting common stock, preferred stock, debentures or convertible debt and we exert significant influence through Board representation and management authority, the equity method of accounting is used. The cost method of accounting is used for our investments in affiliates in which our ownership interest is less than 20% and where we do not exert significant influence. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize our proportionate share of net earnings or losses of the affiliate, limited to the extent of our investment in and advances to the affiliate, including any debt guarantees or other contractual funding commitments. We evaluate our investments in publicly traded securities accounted for under the equity method periodically for impairment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. A decline in value of an investment which is other than temporary is recognized as a realized loss, establishing a new carrying amount for the investment. Factors considered in making this evaluation include the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, including cash flows of the investee and any specific events which may influence the operations of the issuer, and our intent and ability to retain our investments for a period of time sufficient to allow for any anticipated recovery in market value.

Derivative Financial Instruments

We use derivative financial instruments from time to time to manage exposure to movements in foreign currency exchange rates and interest rates. We account for derivative financial instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, ("SFAS 133"), which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the statement of operations, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivative financial instruments designated and that qualify as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are recorded as a component of other comprehensive income or loss in stockholders' equity until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. The change in fair value of the hedged item is recorded as an adjustment to its carrying value on the balance sheet. For derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings.

Subscriber Prepayments and Deposits

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

Cable Network Revenue and Related Costs

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

Other Revenue and Related Costs

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

Concentration of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of subscriber receivables. Concentration of credit risk with respect to subscriber receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

Stock-Based Compensation

We account for our stock-based compensation plans and the stock-based compensation plans of our subsidiaries using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”). We have provided pro forma disclosures of net income (loss) under the fair value method of accounting for these plans, as prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), as amended by SFAS No. 148, *Accounting for*

Stock-Based Compensation — Transition and Disclosure and Amendment of SFAS No. 123 (“SFAS 148”), as follows:

	Year Ended December 31,		
	2003	2002	2001
	(In thousands, except per share amounts)		
Net income (loss), as reported	$ 1,995,368	$ (356,454)	$ (4,494,709)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects(1)	29,242	28,228	8,818
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(57,101)	(102,837)	(98,638)
Pro forma net income (loss)	$ 1,967,509	$ (431,063)	$ (4,584,529)
Basic net income (loss) per common share:			
As reported	$ 7.41	$ (0.84)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)
Diluted net income (loss) per common share:			
As reported	$ 7.41	$ (0.83)	$ (41.29)
Pro forma	$ 7.35	$ (1.01)	$ (42.10)

(1) Not including SARs. Compensation expense for SARs is the same under APB 25 and SFAS 123.

Stock-based compensation is recorded as a result of applying variable-plan accounting to stock appreciation rights (“SARs”) granted to employees and vesting of certain of our fixed stock-based compensation plans. Under variable-plan accounting, compensation expense (credit) is recognized at each financial statement date for vested SARs based on the difference between the grant price and the estimated fair value of our Class A common stock, until the SARs are exercised or expire, or until the fair value is less than the original grant price. Under fixed-plan accounting, deferred compensation is recorded for the excess of fair value over the exercise price of such options at the date of grant. This deferred compensation is then recognized in the statement of operations ratably over the vesting period of the options.

Income Taxes

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

Basic and Diluted Net Income (Loss) Per Share

Basic net income (loss) per share is determined by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during each period. Net income (loss) attributable to common stockholders includes the accrual of dividends on convertible preferred stock which is charged directly to additional paid-in capital and/or accumulated deficit. Diluted net income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive.

Foreign Operations and Foreign Currency Exchange Rate Risk

Our consolidated financial statements are prepared in U.S. dollars. Almost all of our operations are conducted in a currency other than the U.S. dollar. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated at period-end exchange rates and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity (deficit). Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. As a result, amounts related to assets and liabilities reported in the consolidated statements of cash flows will not agree to changes in the corresponding balances in the consolidated balance sheets. The effects of exchange rate changes on cash balances held in foreign currencies are reported as a separate line below cash flows from financing activities. Certain items such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) and certain other charges are denominated in a currency other than the respective company's functional currency, which results in foreign exchange gains and losses recorded in the consolidated statement of operations. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. We adopted SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* Among other things, SFAS 145 required us to reclassify gains and losses associated with the extinguishment of debt (including the related tax effects) from extraordinary classification to other income in the accompanying consolidated statements of operations.

3. Acquisitions, Dispositions and Other

2003

Acquisition of UPC Preference Shares

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400 preference shares A of UPC, nominal value €1.00 per share, and warrants to purchase 1,165,352 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $610.9 million was recognized from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of these preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

On April 4, 2003, we issued 879,041 shares of our Class A common stock in a private transaction pursuant to a transaction agreement dated March 31, 2003, among us, a subsidiary of ours, Motorola Inc. and Motorola UPC Holdings, Inc. In consideration for the 879,041 shares of our Class A common stock, we acquired 3,500 preference shares A of UPC, nominal value €1.00 per share and warrants to purchase 1,669,457 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. On April 14, 2003, we issued 426,360 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated April 8, 2003, between us and Liberty International B-L LLC. In consideration for the 426,360 shares of our Class A common stock, we acquired 2,122 preference shares A of UPC, nominal value €.00 per share and warrants to purchase 971,118 ordinary shares A of UPC, nominal value €1.00 per share, at an exercise price of €42.546 per ordinary share. A gain of $812.2 million was recognized during the second quarter of 2003 from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of the preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

United Pan-Europe Communications N.V. Reorganization

In September 2003, as a result of the consummation of UPC's plan of reorganization under Chapter 11 of the U.S. Bankruptcy Code and insolvency proceedings under Dutch law, UGC Europe acquired all of the stock of, and became the successor issuer to, UPC. Prior to UPC's reorganization, we were the majority stockholder and largest single creditor of UPC. We became the holder of approximately 66.6% of UGC Europe's common stock in exchange for the equity and debt of UPC that we owned prior to UPC's reorganization. UPC's other bondholders and third-party holders of UPC's ordinary shares and preference shares exchanged their securities for the remaining 33.4% of UGC Europe's common stock.

We accounted for this restructuring as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we have consolidated the financial position and results of operations of UGC Europe as if the reorganization had been consummated at inception. We previously recognized a gain on the effective retirement of UPC's senior notes, senior discount notes and UPC's exchangeable loan held by us when those securities were acquired directly and indirectly by us in connection with our merger transaction with Liberty in January 2002. The issuance of common stock by UGC Europe to third-party holders of the remaining UPC senior notes and senior discount notes was recorded at fair value. This fair value was significantly less than the accreted value of such debt securities as reflected in our historical consolidated financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of $2.1 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt ($3.076 billion) over the fair value of UGC Europe common stock issued ($966.4 million).

UGC Europe Exchange Offer and Merger

On December 18, 2003, we completed an exchange offer pursuant to which we offered to exchange 10.3 shares of our Class A common stock for each outstanding share of UGC Europe common stock not owned by us. On December 19, 2003, we effected a short-form merger between UGC Europe and one of our subsidiaries on the same terms offered in the exchange offer. We issued 172,248,306 shares of our Class A common stock to third parties in connection with the exchange offer and merger (including 2,596,270 shares subject to appraisal rights that were withdrawn subsequent to December 31, 2003), as well as 4,780,611 shares to Old UGC to acquire its UGC Europe common stock. We now own all of the outstanding equity securities of UGC Europe.

We valued the exchange offer and merger for accounting purposes at $1.315 billion, based on the issuance of our Class A common stock at the average closing price of such stock for the five days surrounding November 12, 2003, the date we announced the revised and final terms of the exchange offer, and our estimated transaction costs, consisting primarily of dealer-manager, legal and accounting fees, printing costs, other external costs and other purchase consideration directly related to the exchange offer and merger. This total value includes $19.7 million related to the value of shares subject to appraisal rights that were withdrawn in January 2004. This amount is included in other current liabilities in the accompanying consolidated balance sheet.

We accounted for the exchange offer and merger using the purchase method of accounting, in accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"). Under the purchase method of accounting, the total estimated purchase price was allocated to the minority shareholders' proportionate interest in UGC Europe's identifiable tangible and intangible assets and liabilities acquired by us based upon their estimated fair values upon completion of the transaction. Purchase price in excess of the book value of these identifiable tangible and intangible assets and liabilities acquired was allocated as follows (in thousands):

Property, plant and equipment	$	717
Goodwill		1,005,148
Customer relationships and tradename		243,212
Other assets		10,556
Other liabilities		55,271
Total consideration	$	1,314,904

The excess purchase price over the net identifiable tangible and intangible assets and liabilities acquired was recorded as goodwill, which is not deductible for tax purposes. This goodwill was attributable to the following:

- Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;
- Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and
- Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe's and our separate corporate functions into a better integrated, unitary corporate organization.

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following unaudited pro forma condensed consolidated operating results give effect to this transaction as if it had been completed as of January 1, 2003 (for 2003 results) and as of January 1, 2002 (for 2002 results). This unaudited pro forma condensed consolidated financial information does not purport to represent what our results of operations would actually have been if this transaction had in fact occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

	Year Ended December 31,	
	2003	2002
	(In thousands, except share and per share amounts)	
Revenue	$ 1,891,530	$ 1,515,021
Income before cumulative effect of change in accounting principle	$ 1,805,225	$ 1,014,908
Net income (loss)	$ 1,805,225	$ (329,814)
Earnings per share:		
Basic net income (loss) per share before cumulative effect of change in accounting principle	$ 4.99	$ 1.63
Cumulative effect of change in accounting principle	—	(2.17)
Basic net income (loss) per share	$ 4.99	$ (0.54)
Diluted net income (loss) per share before cumulative effect of change in accounting principle	$ 4.98	$ 1.63
Cumulative effect of change in accounting principle	—	(2.17)
Diluted net income (loss) per share	$ 4.98	$ (0.54)

2002

Merger Transaction

On January 30, 2002, we completed a transaction with Liberty and Old UGC, pursuant to which the following occurred.

Immediately prior to the merger transaction on January 30, 2002:

- Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;
- Certain long-term stockholders of Old UGC (the “Founders”) transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and
- Four of the Founders (the “Principal Founders”) contributed $3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC’s directors.

As a result of the merger transaction:

- Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;
- Each share of Old UGC's Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;
- The shares of Old UGC's Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC's preferred stock would have received had they converted their preferred stock immediately prior to the merger;
- Liberty had the right to elect four of our 12 directors;
- The Founders had the effective voting power to elect eight of our 12 directors; and
- We had the right to elect half of Old UGC's directors and the Principal Founders had the right to elect the other half of Old UGC's directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

- Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of $891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;
- Liberty contributed $200.0 million in cash to us;
- Liberty contributed to us certain UPC bonds (the "United UPC Bonds") and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and
- In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

In December 2001, IDT United, Inc. ("IDT United") commenced a cash tender offer for, and related consent solicitation with respect to, the entire $1.375 billion face amount of senior discount notes of Old UGC (the "Old UGC Senior Notes"). As of the expiration of the tender offer on February 1, 2002, holders of the notes had validly tendered and not withdrawn notes representing approximately $1.350 billion aggregate principal amount at maturity. At the time of the tender offer, Liberty had an equity and debt interest in IDT United. IDT United's sole purpose was to tender for the Old UGC Senior Notes.

Prior to the merger on January 30, 2002, we acquired from Liberty $751.2 million aggregate principal amount at maturity of the Old UGC Senior Notes (which had previously been distributed to Liberty by IDT United in redemption of a portion of Liberty's equity interest and in prepayment of a portion of IDT United's debt to Liberty), as well as all of Liberty's remaining interest in IDT United. The purchase price for the Old UGC Senior Notes and Liberty's interest in IDT United was:

- Our assumption of approximately $304.6 million of indebtedness owed by Liberty to Old UGC; and
- Cash in the amount of approximately $143.9 million.

On January 30, 2002, Liberty loaned us approximately $17.3 million, of which approximately $2.3 million was used to purchase shares of redeemable preferred stock and convertible promissory notes issued by IDT United. Following January 30, 2002, Liberty loaned us an additional approximately $85.4 million. We used the proceeds of these loans to purchase additional shares of redeemable preferred stock and convertible promissory notes issued by IDT United. These notes to Liberty accrued interest at 8.0% annually, compounded and payable quarterly, and were cancelled in January 2004 (see Note 22). Subsequent to these transactions, IDT United held Old UGC Senior Notes with a principal amount at maturity of $599.2 million. Although we only retain a 33.3% common equity interest in IDT United, we consolidate IDT United as a "variable interest entity", as we are the primary beneficiary of an entity that has insufficient equity at risk.

On May 14, 2002, the Principal Founders transferred all of the shares of Old UGC common stock held by them to us in exchange for an aggregate of 600,000 shares of our Class A common stock pursuant to an exchange agreement dated May 14, 2002, among such individuals and us. This exchange agreement superseded the exchange agreement entered into at the time of the merger transaction. As a result of this exchange, Old UGC became our wholly-owned subsidiary, and we were entitled to elect the entire board of directors of Old UGC. This transaction was the final step in the recapitalization of Old UGC.

We accounted for the merger transaction on January 30, 2002 as a reorganization of entities under common control at historical cost, similar to a pooling of interests. Under reorganization accounting, we consolidated the financial position and results of operations of Old UGC as if the merger transaction had been consummated at the inception of Old UGC. The purchase of the Old UGC Senior Notes directly from Liberty and the purchase of Liberty's interest in IDT United were recorded at fair value. The issuance of our new shares of Class C common stock to Liberty for cash, the United UPC Bonds and the UPC Exchangeable Loan was recorded at the fair value of our common stock at closing. The estimated fair value of these financial assets (with the exception of the UPC Exchangeable Loan) was significantly less than the accreted value of such debt securities as reflected in Old UGC's historical financial statements. Accordingly, for consolidated financial reporting purposes, we recognized a gain of approximately $1.757 billion from the extinguishment of such debt outstanding at that time equal to the excess of the then accreted value of such debt over our cost, as follows:

	Fair Value at Acquisition	Book Value	Gain/(Loss)
		(In thousands)	
Old UGC Senior Notes	$ 540,149	$ 1,210,974	$ 670,825
United UPC Bonds	312,831	1,451,519	1,138,688
UPC Exchangeable Loan	891,671	891,671	—
Write-off of deferred financing costs	—	(52,224)	(52,224)
Total gain on extinguishment of debt	$ 1,744,651	$ 3,501,940	$ 1,757,289

We also recorded a deferred income tax provision of $110.6 million related to a portion of the gain on extinguishment of the Old UGC Senior Notes.

Transfer of German Shares

Until July 30, 2002, UPC had a 51% ownership interest in EWT/ TSS Group through its 51% owned subsidiary, UPC Germany. Pursuant to the agreement by which UPC acquired EWT/ TSS Group, UPC was required to fulfill a contribution obligation no later than March 2003, by contributing certain assets amounting to approximately €358.8 million. If UPC failed to make the contribution by such date or in certain circumstances such as a material default by UPC under its financing agreements, the minority shareholders of UPC Germany could call for 22.3% of the ownership interest in UPC Germany in exchange for the euro equivalent of 1 Deutsche Mark. On March 5, 2002, UPC received the holders' notice of exercise. On July 30, 2002, UPC completed the transfer of 22.3% of UPC Germany to the minority shareholders in return for the cancellation of the contribution obligation. UPC now owns 28.7% of UPC Germany, with the former minority shareholders owning the remaining 71.3%. UPC Germany is governed by a new shareholders agreement. For accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective August 1, 2002, and recognition of a gain from the reversal of the net negative investment in UPC Germany. Details of the assets and liabilities of UPC Germany as of August 1, 2002 were as follows (in thousands):

Working capital	$ (74,809)
Property, plant and equipment	74,169
Goodwill and other intangible assets	69,912
Long-term liabilities	(84,288)
Minority interest	(142,158)
Gain on reversal of net negative investment	147,925
Net cash deconsolidated	$ (9,249)

Other

In January 2002, we recognized a gain of $109.2 million from the restructuring and cancellation of capital lease obligations associated with excess capacity of certain Priority Telecom vendor contracts.

In June 2002, we recognized a gain of $342.3 million from the delivery by certain banks of $399.2 million in aggregate principal amount of UPC's senior notes and senior discount notes as settlement of certain interest rate and cross currency derivative contracts between the banks and UPC.

2001

In December 2001, UPC and Canal+ Group, the television and film division of Vivendi Universal ("Canal+") merged their respective Polish DTH satellite television platforms, as well as the Canal+ Polska premium channel, to form a common Polish DTH platform. UPC Polska contributed its Polish and United Kingdom DTH assets to Telewizyjna Korporacja Partycypacyjna S.A., a subsidiary of Canal+ ("TKP"), and placed €30.0 million ($26.8 million) cash into an escrow account, which was used to fund TKP with a loan of €30.0 million in January 2002 (the "JV Loan"). In return, UPC Polska received a 25% ownership interest in TKP and €150.0 ($134.1) million in cash. UPC Polska's investment in TKP was recorded at fair value as of the date of the transaction, resulting in a loss of $416.9 million upon consummation of the merger.

4. Marketable Equity Securities and Other Investments

	December 31, 2003		December 31, 2002	
	Fair Value	Unrealized Gain	Fair Value	Unrealized Gain
	(In thousands)		(In thousands)	
SBS common stock	$ 195,600	$ 105,790	$ —	$ —
Other equity securities	10,725	6,098	—	—
Corporate bonds and other	2,134	856	45,854	14
Total	$ 208,459	$ 112,744	$ 45,854	$ 14

We recorded an aggregate charge to earnings for other than temporary declines in the fair value of certain of our investments of approximately nil, $2.0 million and nil for the years ended December 31, 2003, 2002 and 2001, respectively.

We own 6.0 million shares of SBS. Historically, our common share ownership interest in SBS was accounted for under the equity method of accounting, as we were able to exert significant influence. On December 19, 2003, SBS redeemed certain of its outstanding debt and as a result issued new common shares to the note holders which reduced our ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

5. Property, Plant and Equipment

	December 31, 2002	Additions	Disposals	Impairments(1)	UGC Europe Exchange Offer(2)	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Customer premises equipment	$ 1,003,950	$ 95,834	$ (2,459)	$ (89,971)	$ 20,936	$ 201,941	$ 1,230,231
Commercial	5,670	—	—	—	—	235	5,905
Scaleable infrastructure	637,171	44,177	—	(23,806)	(8,973)	138,000	786,569
Line extensions	2,055,614	66,216	—	(302,280)	(3,806)	373,306	2,189,050
Upgrade/rebuild	846,406	30,287	—	(4,854)	(5,653)	151,127	1,017,313
Support capital	696,362	70,972	(473)	(30,874)	4,824	127,250	868,061
Priority Telecom(3)	306,233	17,074	—	(415)	(5,357)	43,521	361,056
UPC Media	83,598	5,833	—	(6,438)	(1,254)	16,447	98,186
Total	5,635,004	330,393	(2,932)	(458,638)	717	1,051,827	6,556,371
Accumulated depreciation	(1,994,793)	(804,937)	2,123	64,788	—	(480,809)	(3,213,628)
Net property, plant and equipment	$ 3,640,211	$ (474,544)	$ (809)	$ (393,850)	$ 717	$ 571,018	$ 3,342,743

(1) See Note 17.

(2) See Note 3.

(3) Consists primarily of network infrastructure and equipment.

6. Goodwill

The change in the carrying amount of goodwill by operating segment for the year ended December 31, 2003 is as follows:

	December 31, 2002	Acquisitions	UGC Europe Exchange Offer(1)	Foreign Currency Translation Adjustments	December 31, 2003
			(In thousands)		
Europe:					
Austria	$ 140,349	$ 383	$ 167,209	$ 31,640	$ 339,581
Belgium	14,284	—	24,467	1,747	40,498
Czech Republic	—	—	67,138	1,240	68,378
Hungary	73,878	229	142,809	11,723	228,639
The Netherlands	705,833	—	256,415	149,310	1,111,558
Norway	9,017	—	28,553	930	38,500
Poland	—	—	36,368	672	37,040
Romania	20,138	—	2,698	324	23,160
Slovak Republic	3,353	—	22,644	1,133	27,130
Sweden	142,771	—	30,823	31,270	204,864
chellomedia	—	—	122,304	2,258	124,562
UGC Europe, Inc.	—	—	103,720	1,915	105,635
Total	1,109,623	612	1,005,148	234,162	2,349,545
Latin America:					
Chile	140,710	—	—	29,576	170,286
Total	$ 1,250,333	$ 612	$ 1,005,148	$ 263,738	$ 2,519,831

(1) See Note 3.

We adopted SFAS 142 effective January 1, 2002. SFAS 142 required a transitional impairment assessment of goodwill as of January 1, 2002, in two steps. Under step one, the fair value of each of our reporting units was compared with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeded its carrying amount, goodwill of the reporting unit was considered not impaired. If the carrying amount of a reporting unit exceeded its fair value, the second step of the goodwill impairment test was performed to measure the amount of impairment loss. We completed step one in June 2002, and concluded the carrying value of certain reporting units as of January 1, 2002 exceeded fair value. The completion of step two resulted in an impairment adjustment of $1.34 billion. This amount has been reflected as a cumulative effect of a change in accounting principle in the consolidated statement of operations, effective January 1, 2002, in accordance with SFAS 142. We also recorded impairment charges totaling $362.8 million based on our annual impairment test effective December 31, 2002.

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Pro Forma Information

Prior to January 1, 2002, goodwill and excess basis on equity method investments was generally amortized over 15 years. The following presents the pro forma effect on net loss for the year ended December 31, 2001, from the reduction of amortization expense on goodwill and the reduction of amortization of excess basis on equity method investments, as a result of the adoption of SFAS 142 (in thousands, except per share amounts):

	Year Ended December 31, 2001
Net loss as reported	$ (4,494,709)
Goodwill amortization	
UPC and subsidiaries	379,449
VTR	11,310
Austar United and subsidiaries	12,765
Other	2,881
Amortization of excess basis on equity investments	
UPC affiliates	35,940
Austar United affiliates	2,823
Other	2,027
Adjusted net loss	$ (4,047,514)
Basic and diluted net loss per common share as reported	$ (41.29)
Goodwill amortization	
UPC and subsidiaries	3.45
VTR	0.10
Austar United and subsidiaries	0.12
Other	0.03
Amortization of excess basis on equity investments	
UPC affiliates	0.33
Austar United affiliates	0.03
Other	0.02
Adjusted basic and diluted net loss per common share	$ (37.21)

7. Intangible Assets

Other intangible assets consist primarily of customer relationships, tradename, licenses and capitalized software. Customer relationships are amortized over the expected lives of our customers. The weighted-average amortization period of the customer relationship intangible is approximately 7.5 years. Tradename is an indefinite-lived intangible asset that is not subject to amortization. The following tables present certain information for other intangible assets. Actual amounts of amortization expense may differ from estimated amounts due to additional acquisitions, changes in foreign currency exchange rates, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

	December 31, 2002	Additions	Impairments(1)	Disposals	UGC Europe Exchange Offer	Foreign Currency Translation Adjustments	December 31, 2003
				(In thousands)			
Intangible assets with definite lives:							
Customer relationships	$ —	$ —	$ —	$ —	$ 220,290	$ 4,068	$ 224,358
License fees	25,075	1,489	(13,871)	(3,815)	—	2,870	11,748
Other	10,493	233	—	(4,132)	—	1,925	8,519
Intangible assets with indefinite lives:							
Tradename	—	—	—	—	22,922	424	23,346
Total	35,568	1,722	(13,871)	(7,947)	243,212	9,287	267,971
Accumulated amortization	(21,792)	(3,726)	5,482	7,537	—	(3,236)	(15,735)
Net intangible assets	$ 13,776	$ (2,004)	$ (8,389)	$ (410)	$ 243,212	$ 6,051	$ 252,236

(1) See Note 17.

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Amortization expense	$ 3,726	$ 16,632	$ 19,136

	Year Ended December 31,					
	2004	2005	2006	2007	2008	Thereafter
			(In thousands)			
Estimated amortization expense	$ 33,043	$ 31,816	$ 30,515	$ 30,515	$ 30,515	$ 72,486

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8. Long-Term Debt

	December 31, 2003	December 31, 2002
	(In thousands)	
UPC Distribution Bank Facility	$ 3,698,586	$ 3,289,826
UPC Polska notes	317,372	377,110
VTR Bank Facility	123,000	—
Old UGC Senior Notes	24,627	24,313
Other	80,493	133,148
PCI notes	—	14,509
UPC July 1999 senior notes(1)	—	1,079,062
UPC January 2000 senior notes(1)	—	1,075,468
UPC October 1999 senior notes(1)	—	658,458
Total	4,244,078	6,651,894
Current portion	(628,176)	(6,179,223)
Long-term portion	$ 3,615,902	$ 472,671

(1) These senior notes and senior discount notes were converted into common stock of UGC Europe in connection with UPC's reorganization.

UPC Distribution Bank Facility

The UPC Distribution Bank Facility is guaranteed by UPC's majority owned cable operating companies, excluding Poland, and is senior to other long-term debt obligations of UPC. The UPC Distribution Bank Facility credit agreement contains certain financial covenants and restrictions on UPC's subsidiaries regarding payment of dividends, ability to incur indebtedness, dispose of assets, and merge and enter into affiliate transactions.

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

Tranche	Currency/Tranche Amount		Amount Outstanding December 31, 2003		Interest Rate(4)	Description	Payment Begins	Final Maturity
	Euros	US Dollars	Euros	US Dollars				
	(In thousands)							
Facility A(1)(2)(3)	€ 666,750	$ 840,529	€ 230,000	$ 289,946	EURIBOR +2.25%–4.0%	Revolving credit	June-06	June-08
Facility B(1)(2)	2,333,250	2,941,380	2,333,250	2,941,380	EURIBOR +2.25%–4.0%	Term loan	June-04	June-08
Facility C1(1)	95,000	119,760	95,000	119,760	EURIBOR +5.5%	Term loan	June-04	March-09
Facility C2(1)	405,000	347,500	275,654	347,500	LIBOR +5.5%	Term loan	June-04	March-09
Total			€ 2,933,904	$ 3,698,586				

(1) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.

(2) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.

(3) The availability under Facility A of €436.8 ($550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.

(4) As of December 31, 2003, six month EURIBOR and LIBOR rates were 2.2% and 1.2%, respectively.

In January 2004, the UPC Distribution Bank Facility was amended to:

- Permit indebtedness under a new facility (“Facility D”). The new facility has substantially the same terms as the existing facility and consists of five different tranches totaling €1.072 billion. The proceeds of Facility D are limited in use to fund the scheduled payments of Facility B under the existing facility between December 2004 and December 2006;
- Increase and extend the maximum permitted ratios of senior debt to annualized EBITDA (as defined in the bank facility) and lower and extend the minimum required ratios of EBITDA to senior interest and EBITDA to senior debt service;
- Include a total debt to annualized EBITDA ratio and EBITDA to total cash interest ratio;
- Include a mandatory prepayment from proceeds of debt issuance and net equity proceeds received by UGC Europe; and
- Permit acquisitions depending on certain leverage ratios and other restrictions.

UPC Polska Notes

On July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska’s Chapter 11 plan of reorganization, which was consummated and became effective on February 18, 2004, when UPC Polska emerged from the Chapter 11 proceedings. In accordance with UPC Polska’s plan of reorganization, third-party note holders received a total of $80.0 million in cash, $100.0 million in new 9.0% UPC Polska notes due 2007, and approximately 2.0 million shares of our Class A common stock in exchange for the cancellation of their claims. Two subsidiaries of UGC Europe, UPC Telecom B.V. and Belmarken Holding B.V., received $15.0 million in cash and 100% of the newly issued membership interests denominated as stock of the reorganized company in exchange for the cancellation of their claims.

VTR Bank Facility

In May 2003, VTR and VTR's senior lenders amended and restated VTR's existing senior secured credit facility. Principal payments are payable during the term of the facility on a quarterly basis beginning March 31, 2004, with final maturity on December 31, 2006. The VTR Bank Facility bears interest at LIBOR plus 5.50% (subject to adjustment under certain conditions) and is collateralized by tangible and intangible assets pledged by VTR and certain of its operating subsidiaries, as set forth in the credit agreement. The VTR Bank Facility is senior to other long-term debt obligations of VTR. The VTR Bank Facility credit agreement establishes certain covenants with respect to financial statements, existence of lawsuits, insurance, prohibition of material changes, limits to taxes, indebtedness, restriction of payments, capital expenditures, compliance ratios, governmental approvals, coverage agreements, lines of business, transactions with related parties, certain obligations with subsidiaries and collateral issues.

Old UGC Senior Notes

The Old UGC Senior Notes accreted to an aggregate principal amount of $1.375 billion on February 15, 2003, at which time cash interest began to accrue. Commencing August 15, 2003, cash interest on the Old UGC Senior Notes is payable on February 15 and August 15 of each year until maturity at a rate of 10.75% per annum. The Old UGC Senior Notes mature on February 15, 2008. As of December 31, 2003, the following entities held the Old UGC Senior Notes:

	Principal Amount at Maturity (In thousands)
UGC	$ 638,008(1)
IDT United	599,173(1)
Third parties	24,627
Total	$ 1,261,808

(1) Eliminated in consolidation.

The Old UGC Senior Notes began to accrue interest on a cash-pay basis on February 15, 2003, with the first payment due August 15, 2003. Old UGC did not make this interest payment. Because this failure to pay continued for a period of more than 30 days, an event of default exists under the terms of the Old UGC Senior Notes indenture. On November 24, 2003, Old UGC, which principally owns our interests in Latin America and Australia, reached an agreement with us, IDT United (in which we have a 94% fully diluted interest and a 33% common equity interest) and the unaffiliated stockholders of IDT United on terms for the restructuring of the Old UGC Senior Notes. Consistent with the restructuring agreement, on January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. The agreement and related transactions, if implemented, would result in the acquisition by Old UGC of the Old UGC Notes held by us (following cancellation of offsetting obligations) and IDT United for common stock of Old UGC. Old UGC Senior Notes held by third parties would either be left outstanding (after cure and reinstatement) or acquired for our Class A Common Stock (or, at our election, for cash). Subject to consummation of the transactions contemplated by the agreement, we expect to acquire the interests of the unaffiliated stockholders in IDT United for our Class A Common Stock and/or cash, at our election, in which case Old UGC would continue to be wholly owned by us. The value of any Class A Common Stock to be issued by us in these transactions is not expected to exceed $45 million. A claim was filed in the Chapter 11 proceeding by Excite@Home. See Note 13.

Long-Term Debt Maturities

The maturities of our long-term debt are as follows (in thousands):

Year Ended December 31, 2004	$ 628,176
Year Ended December 31, 2005	718,903
Year Ended December 31, 2006	1,002,106
Year Ended December 31, 2007	671,704
Year Ended December 31, 2008	813,423
Thereafter	409,766
Total	$ 4,244,078

9. Fair Value of Financial Instruments

	December 31, 2003		December 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
UPC Distribution Bank Facility	$ 3,698,586	$ 3,698,586(1)	$ 3,289,826	$ 3,289,826(2)
UPC Polska Notes	317,372	194,500(3)	377,110	99,133(4)
VTR Bank Facility	123,000	123,000(5)	144,000	144,000(5)
Note payable to Liberty	102,728	102,728(6)	102,728	102,728(6)
Old UGC Senior Notes	24,627	20,687(7)	24,313	8,619(4)
UPC July 1999 Senior Notes	—	—	1,079,062	64,687(4)
UPC October 1999 Senior Notes	—	—	658,458	41,146(4)
UPC January 2000 Senior Notes	—	—	1,075,468	68,152(4)
UPC FiBI Loan	—	—	57,033	—(8)
Other	85,592	85,592(9)	151,769	151,769(9)
Total	$ 4,351,905	$ 4,225,093	$ 6,959,767	$ 3,970,060

(1) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) Moody's Investor Service rated the facility at B+; and c) the credit agreement was amended in January 2004 to add a new €1.072 billion tranche on similar credit terms as the previous facility.

(2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount); b) the reorganization plan of UPC assumed, in liquidation, that the lenders of the facility would be paid back 100%, based on seniority in liquidation (i.e., the assets of UPC Distribution were sufficient to repay the facility in a liquidation scenario); c) certain lenders under the facility confirmed to us they did not mark down the facility on their books; and d) when the facility was amended in connection with the restructuring agreement on September 30, 2002, the revised terms included increased fees and margin (credit spread), resetting the terms of this variable-rate facility to market.

(3) Fair value represents the consideration UPC Polska note holders received from the consummation of UPC Polska's second amended Chapter 11 plan of reorganization.

(4) Fair value is based on quoted market prices.

(5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR's results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.

(6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.

(7) Fair value is based on an independent valuation analysis.

(8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel ("FiBI") and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.

(9) Fair value approximates carrying value.

The carrying value of cash and cash equivalents, subscriber receivables, other receivables, other current assets, accounts payable, accrued liabilities and subscriber prepayments and deposits approximates fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices at the reporting date.

10. Derivative Instruments

We had a cross currency swap related to the UPC Distribution Bank Facility where a $347.5 million notional amount was swapped at an average rate of 0.852 euros per U.S. dollar until November 29, 2002. On November 29, 2002, the swap was settled for €64.6 million. We also had an interest rate swap related to the UPC Distribution Bank Facility where a notional amount of €1.725 billion was fixed at 4.55% for the EURIBOR portion of the interest calculation through April 15, 2003. This swap qualified as an accounting cash flow hedge, accordingly, the changes in fair value of this instrument were recorded through other comprehensive income (loss) in the consolidated statement of stockholders' equity (deficit). This swap expired April 15, 2003. During the first quarter of 2003, we purchased an interest rate cap on the euro denominated UPC Distribution Bank Facility for 2003 and 2004. As a result, the net rate (without the applicable margin) is capped at 3.0% on a notional amount of €2.7 billion. The changes in fair value of these interest caps are recorded through other income in the consolidated statement of operations. In June 2003, we entered into a cross currency and interest rate swap pursuant to which a $347.5 million obligation under the UPC Distribution Bank Facility was swapped at an average rate of 1.113 euros per U.S. dollar until July 2005. The changes in fair value of these interest swaps are recorded through other income in the consolidated statement of operations. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of $56.3 million, $130.1 million and $105.8 million, respectively, in connection with the change in fair value of these derivative instruments. The fair value of these derivative contracts as of December 31, 2003 was $45.6 million (liability).

Certain of our operating companies' programming contracts are denominated in currencies that are not the functional currency or local currency of that operating company, nor that of the counter party. As a result, these contracts contain embedded foreign exchange derivatives that require separate accounting. We report these derivatives at fair value, with changes in fair value recognized in earnings.

11. Bankruptcy Proceedings

In September 2002, we and other creditors of UPC reached a binding agreement on a recapitalization and reorganization plan for UPC. In order to effect the restructuring, on December 3, 2002, UPC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Southern District of New York, including a pre-negotiated plan of reorganization dated December 3, 2002. On that date, UPC also commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law and filed a proposed plan of compulsory composition with the Amsterdam Court under the Dutch bankruptcy code. The U.S. Bankruptcy Court confirmed the reorganization plan on February 20, 2003. The Dutch Bankruptcy Court ratified the plan of compulsory composition on March 13, 2003. Following appeals in the Dutch proceedings, the reorganization was completed as provided for in the pre-negotiated plan of reorganization in September 2003.

On June 19, 2003, UPC Polska executed a binding agreement with some of its creditors to restructure its balance sheet. In order to effect the restructuring, on July 7, 2003, UPC Polska filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated July 8, 2003. On October 27, 2003, UPC Polska filed a first amended plan of reorganization with the U.S. Bankruptcy Court. On December 17, 2003, UPC Polska entered into a "Stipulation and Order with Respect to Consensual Plan of Reorganization" which terminated the restructuring agreement. Pursuant to the Stipulation, UPC filed a second amended plan of reorganization with the U.S. Bankruptcy Court, which was consummated and became effective on February 18, 2004.

In connection with their bankruptcy proceedings, UPC and UPC Polska are required to prepare their consolidated financial statements in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"), issued by the American Institute of Certified Public Accountants. In accordance with SOP 90-7, all of UPC's and UPC Polska's pre-petition liabilities that were subject to compromise under their plans of reorganization are segregated in their consolidated balance sheet as liabilities and convertible preferred stock subject to compromise. These liabilities were recorded at the amounts expected to be allowed as claims in the bankruptcy proceedings rather than at the estimated amounts for which those allowed claims might be settled as a result of the approval of the plans of reorganization. Since we consolidate UPC and UPC Polska, financial information with respect to UPC and UPC Polska included in our accompanying consolidated financial statements has been prepared in accordance with SOP 90-7. The following presents condensed financial information for UPC Polska and UPC in accordance with SOP 90-7:

	UPC Polska	UPC
	December 31,	
	2003	2002
	(In thousands)	
Balance Sheet		
Assets		
Current assets	$ 240,131	$ 54,650
Long-term assets	—	328,422
Total assets	$ 240,131	$ 383,072
Liabilities and Stockholders’ Equity (Deficit)		
Current liabilities		
Not subject to compromise:		
Accounts payable, accrued liabilities, debt and other	$ 10,794	$ 631
Total current liabilities not subject to compromise	10,794	631
Subject to compromise:		
Accounts payable	14,445	38,647
Short-term debt	6,000	—
Accrued liabilities	—	232,603
Intercompany payable(1)	4,668	135,652
Current portion of long-term debt(1)	456,992	2,812,954
Debt(1)	481,737	1,533,707
Total current liabilities subject to compromise	963,842	4,753,563
Long-term liabilities not subject to compromise	—	725,008
Convertible preferred stock subject to compromise(2)	—	1,744,043
Stockholders’ equity (deficit)	(734,505)	(6,840,173)
Total liabilities and stockholders’ equity (deficit)	$ 240,131	$ 383,072

(1) Certain amounts are eliminated in consolidation.

(2) 99.6% is eliminated in consolidation.

	UPC Polska	UPC
	December 31,	
	2003(1)	2002(2)
	(In thousands)	
Statement of Operations		
Revenue	$ —	$ 19,037
Expense	—	(42,696)
Depreciation and amortization	—	(16,562)
Impairment and restructuring charges	(6,000)	(1,218)
Operating income (loss)	(6,000)	(41,439)
Share in results of affiliates and other expense, net	(6,669)	(1,870,430)
Net income (loss)	$ (12,669)	$ (1,911,869)

(1) For the period from July 7, 2003 (the petition date) to December 31, 2003.

(2) For the year ended December 31, 2002.

The following presents certain other disclosures required by SOP 90-7 for UPC Polska and UPC:

	2003	2002
	(In thousands)	
Interest expense on liabilities subject to compromise(1)	$ 55,270	$ —
Contractual interest expense on liabilities subject to compromise	$ 106,858	$ 709,571
Reorganization expense:		
Professional fees	$ 43,248	$ 37,898
Adjustment of debt to expected allowed amounts	(19,239)	—
Write-off of deferred finance costs	—	36,203
Other	8,000	1,142
Total reorganization expense	$ 32,009	$ 75,243

(1) In accordance with SOP 90-7, interest expense on liabilities subject to compromise is reported in the accompanying consolidated statement of operations only to the extent that it will be paid during the bankruptcy proceedings or to the extent it is considered an allowed claim.

12. Net Negative Investment in Deconsolidated Subsidiaries

On November 15, 2001, we transferred an approximate 50% interest in United Australia/ Pacific, Inc. (“UAP”) to an independent third party for nominal consideration. As a result, we deconsolidated UAP effective November 15, 2001. On March 29, 2002, UAP filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court. On March 18, 2003, the U.S. Bankruptcy Court entered an order confirming UAP’s plan of reorganization (the “UAP Plan”). The UAP Plan became effective in April 2003, and the UAP bankruptcy proceeding was completed in June 2003.

In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. (“CHAMP”) acquired UAP’s indirect approximate 63.2% interest in United Austar, Inc. (“UAI”), which owned approximately 80.7% of Austar United. The purchase price for UAP’s indirect interest in UAI was $34.5 million in cash, which was distributed to the holders of UAP’s senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of

UAP's gain from the sale of its 63.2% interest in UAI ($26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes ($258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of $284.7 million associated with the sale of our indirect approximate 49.99% interest in UAP that occurred on November 15, 2001.

13. Guarantees, Commitments and Contingencies

Guarantees

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. We generally indemnify the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by us. These types of indemnification guarantees typically extend for a number of years. We are unable to estimate the maximum potential liability for these types of indemnification guarantees as the sale agreements typically do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and the likelihood of which cannot be determined at this time. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees.

In connection with the acquisition of UPC's ordinary shares held by Philips Electronics N.V. ("Philips") on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria ("Vienna Obligations"), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence.

Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders' costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

We sub-lease transponder capacity to a third party and all guaranteed performance criteria is matched with the guaranteed performance criteria we receive from the lease transponder provider. We have third party contracts for the distribution of channels from our digital media center in Amsterdam that require us to perform according to industry standard practice, with penalties attached should performance drop below the agreed-upon criteria. Additionally, our interactive services group in Europe has third party contracts for the delivery of interactive content with certain performance criteria guarantees.

Commitments

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense under these lease agreements totaled $69.9 million, $48.5 million and $63.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

	Capital Leases	Operating Leases
Year ended December 31, 2004	$ 7,791	$ 60,501
Year ended December 31, 2005	8,790	39,376
Year ended December 31, 2006	7,887	32,020
Year ended December 31, 2007	7,899	26,109
Year ended December 31, 2008	7,917	21,511
Thereafter	61,826	42,092
Total minimum payments	$ 102,110	$ 221,609
Less amount representing interest and executory costs	(37,268)	
Net lease payments	64,842	
Lease obligations due within one year	(3,073)	
Long-term lease obligations	$ 61,769	

As of December 31, 2003, we have a commitment to purchase 265,000 set-top computers over the next two years. We expect to finance these purchases from existing unrestricted cash balances and future operating cash flow.

We have certain franchise obligations under which we must meet performance requirements to construct networks under certain circumstances. Non-performance of these obligations could result in penalties being levied against us. We continue to meet our obligations so as not to incur such penalties. In the ordinary course of business, we provide customers with certain performance guarantees. For example, should a service outage occur in excess of a certain period of time, we would compensate those customers for the outage. Historically, we have not made any significant payments under any of these indemnifications or guarantees. In certain cases, due to the nature of the agreement, we have not been able to estimate our maximum potential loss or the maximum potential loss has not been specified.

Contingencies

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

Cignal

On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications (“Cignal”) filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200.0 million alleging that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful consummation of the initial public offering of Priority Telecom on September 27, 2001. Accordingly, UPC believes that the Cignal shareholders’ claims are without merit and intends to defend this suit vigorously. In December 2003, certain members and former members of the Supervisory Board of Priority Telecom were put on notice that a tort claim may be filed against them for their cooperation in the initial public offering.

Excite@Home

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

HBO

UPC Polska was involved in a dispute with HBO Communications (UK) Ltd., Polska Programming B.V. and HBO Poland Partners (collectively "HBO") concerning its cable carriage agreement and its D-DTH carriage agreement for the HBO premium movie channel. In February 2004, the matter was settled and UPC Polska paid $6.0 million to HBO.

ICH

On July 4, 2001, ICH, InterComm France CVOHA ("ICF I"), InterComm France II CVOHA ("ICF II"), and Reflex Participations ("Reflex," collectively with ICF I and ICF II, the "ICF Party") served a demand for arbitration on UPC, Old UGC, and its subsidiaries, Belmarken Holding B.V. ("Belmarken") and UPC France Holding B.V. The claimants allege breaches of obligations allegedly owed by UPC in connection with the ICF Party's position as a minority shareholder in Médiaréseaux S.A. In February 2004, the parties entered into a settlement agreement pursuant to which UPC purchased the shares owned by the ICF Party in Médiaréseaux S.A. for consideration of 1,800,000 shares of our Class A common stock.

Movieco

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

Philips

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

UGC Europe Exchange Offer

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

14. Minority Interests in Subsidiaries

	December 31, 2003	December 31, 2002
	(In thousands)	
UPC convertible preference shares held by third parties(1)	$ —	$ 1,094,668
UPC convertible preference shares held by Liberty(2)	—	297,753
IDT United	20,858	7,986
Other	1,903	1,739
Total	$ 22,761	$ 1,402,146

(1) We acquired 99.4% of these convertible preference shares in February and April 2003. The remainder was exchanged for UGC Europe common stock in connection with UPC’s restructuring.

(2) Acquired by us in April 2003.

The minority interests' share of results of operations is as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Minority interest share of UGC Europe net loss	$ 181,046	$ —	$ —
Accrual of dividends on UPC's convertible preference shares held by third parties	—	(78,355)	(70,089)
Accrual of dividends on UPC's convertible preference shares held by Liberty	—	(18,728)	(19,113)
Minority interest share of UPC net loss	—	—	54,050
Subsidiaries of UGC Europe	(91)	28,080	484,780
Other	2,227	1,900	46,887
Total	$ 183,182	$ (67,103)	$ 496,515

15. Stockholders' Equity (Deficit)

Description of Capital Stock

Our authorized capital stock currently consists of:

- 1,000,000,000 shares of Class A common stock;
- 1,000,000,000 shares of Class B common stock;
- 400,000,000 shares of Class C common stock; and
- 10,000,000 shares of preferred stock, all $0.01 par value per share.

Common Stock

Our Class A common stock, Class B common stock and Class C common stock have identical economic rights. They do, however, differ in the following respects:

- Each share of Class A common stock, Class B common stock and Class C common stock entitles the holders thereof to one, ten and ten votes, respectively, on each matter to be voted on by our stockholders, excluding, until our next annual meeting of stockholders, the election of directors, at which time the holders of Class A common stock, Class B common stock and Class C common stock will vote together as a single class on each matter to be voted on by our stockholders, including the election of directors; and
- Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock at any time. Each share of Class C common stock is convertible, at the option of the holder, into one share of Class A common stock or Class B common stock at any time.

Holders of our Class A, Class B and Class C common stock are entitled to receive any dividends that are declared by our board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution or winding up, holders of our Class A, Class B and Class C common stock will be entitled to share in all assets available for distribution to holders of common stock. Holders of our Class A, Class B and Class C common stock have no preemptive right under our certificate of incorporation. Our certificate of incorporation provides that if there is any dividend, subdivision, combination or reclassification of any class of common stock, a proportionate dividend, subdivision, combination or reclassification of one other class of common stock will be made at the same time.

Preferred Stock

We are authorized to issue 10 million shares of preferred stock. Our board of directors is authorized, without any further action by the stockholders, to determine the following for any unissued series of preferred stock:

- voting rights;
- dividend rights;
- dividend rates;
- liquidation preferences;
- redemption provisions;
- sinking fund terms;
- conversion or exchange rights;
- the number of shares in the series; and
- other rights, preferences, privileges and restrictions.

In addition, the preferred stock could have other rights, including economic rights senior to common stock, so that the issuance of the preferred stock could adversely affect the market value of common stock. The issuance of preferred stock may also have the effect of delaying, deferring or preventing a change in control of us without any action by the stockholders.

UGC Equity Incentive Plan

On August 19, 2003, our Board of Directors adopted an Equity Incentive Plan (the “Incentive Plan”) effective September 1, 2003. Our stockholders approved the Incentive Plan on September 30, 2003. After such stockholder approval of the Incentive Plan, the Board of Directors recommended certain changes to the Incentive Plan that give us the ability to issue stock appreciation rights with a grant price at, above, or less than the fair market value of our common stock on the date the stock appreciation right is granted. Those changes, along with certain other technical changes, were incorporated into an amended UGC Equity Incentive Plan (the “Amended Incentive Plan”), which was approved by our stockholders on December 17, 2003. The Board of Directors have reserved 39,000,000 shares of common stock, plus an additional number of shares on January 1 of each year equal to 1% of the aggregate shares of Class A and Class B common stock outstanding, for the Amended Incentive Plan. No more than 5,000,000 shares of Class A or Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the Amended Incentive Plan as Class B common stock. The Amended Incentive Plan permits the grant of the following awards (the “Awards”): stock options (“Options”), restricted stock awards (“Restricted Stock”), SARs, stock bonuses (“Stock Bonuses”), stock units (“Stock Units”) and other grants of stock. Our employees, consultants and non-employee directors and affiliated entities designated by the Board of Directors are entitled to receive any Awards under the Amended Incentive Plan, provided, however, that only non-qualified Options may be granted to non-employee directors. In accordance with the provisions of the Plan, our compensation committee (the “Committee”) has the discretion to: select participants from among eligible employees and eligible consultants; determine the Awards to be made; determine the number of Stock Units, SARs or shares of stock to be issued and the time at which such Awards are to be made; fix the option price, period and manner in which an Option becomes exercisable; establish the duration and nature of Restricted Stock Award restrictions; establish the terms and conditions applicable to Stock Bonuses and Stock Units; and establish such other terms and requirements of the various compensation incentives under the Amended Incentive Plan as the Committee may deem necessary or desirable and consistent with the terms of the Amended Incentive Plan. The Committee may, under certain circumstances, delegate to our officers the authority to grant Awards to specified groups of employees and consultants. The Board has the sole authority to grant Options under the Amended Incentive Plan to non-employee directors. The maximum term of Options granted under the Amended Incentive Plan is ten years. The Committee shall determine, at the time of the award of SARs, the time period during which the SARs may be exercised and other terms that shall apply to the SARs. The Amended Incentive Plan terminates August 31, 2013.

A summary of activity for the Amended Incentive Plan is as follows:

	Number of SARs	Weighted-Average Base Price
Outstanding at beginning of year	—	$ —
Granted during the year	32,165,550	$ 4.69
Cancelled during the year	(78,280)	$ 4.59
Exercised during the year	—	$ —
Outstanding at end of year	32,087,270	$ 4.69
Exercisable at end of year	—	$ —

The weighted-average fair values and weighted average base prices of SARs granted under the Amended Incentive Plan are as follows:

Base Price	Number	Fair Value	Base Price
Less than market price(1)	15,081,775	$ 5.44	$ 3.74
Equal to market price(2)	15,081,775	$ 6.88	$ 5.44
Equal to market price	2,002,000	$ 4.91	$ 6.13
Greater than market price	—	$ —	$ —
Total(3)	32,165,550	$ 4.33	$ 4.69

(1) We originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will receive only the difference between the base price and the lesser of $5.44 or the fair market value of our Class A common stock on the date of exercise.

(2) We originally granted these SARs at fair market value on date of grant. As a result of the UGC Europe Exchange Offer and merger transaction in December 2003, we substituted UGC SARs for UGC Europe SARs.

(3) All the SARs granted during Fiscal 2003 vest in five equal annual increments. Vesting of the SARs granted would be accelerated upon a change of control of UGC as defined in the Amended Incentive Plan. The table does not reflect the adjustment to the base prices on all outstanding SARs in January 2004. As a result of the dilution caused by our subscription rights offering that closed in February 2004, all base prices have since been reduced by $0.87.

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following summarizes information about SARs outstanding and exercisable at December 31, 2003:

	Outstanding			Exercisable	
Base Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Base Price	Number	Weighted-Average Base Price
$3.74	15,042,635	9.97	$ 3.74	—	$ —
$5.44	15,042,635	9.97	$ 5.44	—	$ —
$6.13	1,997,000	9.75	$ 6.13	—	$ —
$7.20	5,000	9.90	$ 7.20	—	$ —
Total	32,087,270	9.95	$ 4.69	—	$ —

The Amended Incentive Plan is accounted for as a variable plan and accordingly, compensation expense is recognized at each financial statement date based on the difference between the grant price and the estimated fair value of our Class A common stock. Compensation expense of $8.8 million was recognized in the statement of operations for the year ended December 31, 2003.

UGC Stock Option Plans

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by us on January 30, 2002 (the “Employee Plan”). The Employee Plan was construed, interpreted and administered by the Committee, consisting of all members of the Board of Directors who were not our employees. The Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of Class A common stock, of which options for up to 3,000,000 shares of Class B common stock were available to be granted in lieu of options for shares of Class A common stock. The Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In general, for grants prior to December 1, 2000, options vested in equal monthly increments over 48 months, and for grants subsequent to December 1, 2000, options vested 12.5% six months from the date of grant and then in equal monthly increments over the next 42 months. Vesting would be accelerated upon a change of control of us as defined in the Employee Plan. At December 31, 2003, employees had options to purchase an aggregate of 10,745,692 shares of Class A common stock outstanding under The Employee Plan and options to purchase an aggregate of 3,000,000 shares of Class B common stock. The Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made.

Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by us on January 30, 2002 (the “1993 Director Plan”). The 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of our Class A common stock to each member of the Board of Directors who was not also an employee of ours (a “non-employee director”) on June 1, 1993, and to each person who was newly elected to the Board of Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by us on January 30, 2002 (the “1998 Director Plan”, and together with the 1993 Director Plan, the “Director Plans”). Options under the 1998 Director Plan were granted at the discretion of our Board of Directors. The maximum term of options granted under the Director Plans was ten years. Under the 1993 Director Plan, options vested 25.0% on the first anniversary of the date of grant and then evenly over the next 36-month period. Under the 1998 Director Plan, options vested in equal monthly increments over the four-year period following the date of grant. Vesting under the Director Plans would be accelerated upon a change in control of us as defined in the respective Director Plans. Effective March 14, 2003, the Board of Directors terminated the 1993 Director Plan. At the time of termination, we had granted options for an aggregate of 860,000 shares of Class A common stock, of which 271,667 shares have been cancelled. Options outstanding prior to the date of termination continue to be recognized, but no new grants of options will be made.

Pro forma information regarding net income (loss) and net income (loss) per share is required to be determined as if we had accounted for our Employee Plan’s and Director Plans’ options granted on or after March 1, 1995 under the fair value method prescribed by SFAS 123. The fair value of options granted for the years ended December 31, 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,		
	2003	2002	2001
Risk-free interest rate	3.40%	4.62%	4.78%
Expected lives	6 years	6 years	6 years
Expected volatility	100%	100%	95.13%
Expected dividend yield	0%	0%	0%

Based on the above assumptions, the total fair value of options granted was nil, $47.6 million and $5.3 million for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of stock option activity for the Employee Plan is as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	16,964,230	$ 7.88	5,141,807	$ 16.16	4,770,216	$ 16.95
Granted during the year	—	$ —	11,970,000	$ 4.43	543,107	$ 10.08
Cancelled during the year	(3,067,084)	$ 5.90	(147,577)	$ 16.66	(157,741)	$ 20.12
Exercised during the year	(151,454)	$ 3.92	—	$ —	(13,775)	$ 5.30
Outstanding at end of year	13,745,692	$ 8.36	16,964,230	$ 7.88	5,141,807	$ 16.16
Exercisable at end of year	8,977,124	$ 9.91	7,371,369	$ 10.28	3,125,596	$ 13.70

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of stock option activity for the Director Plans is as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
Outstanding at beginning of year	1,080,000	$ 10.52	1,110,416	$ 11.24	630,000	$ 18.13
Granted during the year	—	$ —	200,000	$ 5.00	500,000	$ 5.00
Cancelled during the year	—	$ —	(230,416)	$ 9.20	(19,584)	$ 73.45
Exercised during the year	(160,000)	$ 4.75	—	$ —	—	$ —
Outstanding at end of year	920,000	$ 11.53	1,080,000	$ 10.52	1,110,416	$ 11.24
Exercisable at end of year	702,290	$ 13.48	569,999	$ 12.81	487,290	$ 12.99

The combined weighted-average fair values and weighted-average exercise prices of options granted under the Employee Plan and the Director Plans are as follows:

	Year Ended December 31,					
	2002			2001		
Exercise Price	Number	Fair Value	Exercise Price	Number	Fair Value	Exercise Price
Less than market price	2,900,000	$ 4.53	$ 2.64	3,149	$ 9.65	$ 5.96
Equal to market price	—	$ —	$ —	100,000	$ 13.71	$ 17.38
Greater than market price	9,270,000	$ 3.71	$ 5.00	939,958	$ 4.10	$ 6.62
Total	12,170,000	$ 3.91	$ 4.44	1,043,107	$ 5.03	$ 7.64

The following table summarizes information about employee and director stock options outstanding and exercisable at December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$4.16–$4.75	407,000	3.75	$ 4.29	407,000	$ 4.29
$5.00–$5.00	10,977,808	8.09	$ 5.00	6,203,710	$ 5.00
$5.11–$7.13	996,182	3.89	$ 5.75	974,677	$ 5.77
$7.75–$86.50	2,284,702	5.84	$ 27.66	2,094,027	$ 28.68
Total	14,665,692	7.33	$ 8.56	9,679,414	$ 10.17

UPC Stock Option Plans

UPC adopted a stock option plan on June 13, 1996, as amended (the “UPC Plan”), for certain of its employees and those of its subsidiaries. Options under the UPC Plan were granted at fair market value at the time of the grant, unless determined otherwise by UPC’s Supervisory Board. The maximum term that the options were exerciseable was five years from the date of the grant. In order to introduce the element of “vesting” of the options, the UPC Plan provided that even though the options were exercisable upon grant, the options were subject to repurchase rights reduced by equal monthly amounts over a vesting period of 36 months for options granted in 1996 and 48 months for all other options. Upon termination of an employee (except in the case of death, disability or the like), all unvested options previously exercised were resold to UPC at the exercise price and all vested options were exercised within 30 days of the termination date. UPC's Supervisory Board was allowed to alter these vesting schedules at its discretion. The UPC Plan also contained anti-dilution protection and provided that, in the case of a change of control, the acquiring company had the right to require UPC to acquire all of the options outstanding at the per share value determined in the transaction giving rise to the change of control. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled.

Pro forma information regarding net income (loss) and net income (loss) per share is presented below as if UPC had accounted for the UPC Plan under the fair value method of SFAS 123. The fair value of options granted for the years ended December 31, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

	Year Ended December 31,	
	2002	2001
Risk-free interest rate	3.16%	4.15%
Expected lives	5 years	5 years
Expected volatility	118.33%	112.19%
Expected dividend yield	0%	0%

Based on the above assumptions, the total fair value of options granted was approximately $0.1 million and $140.5 million for the years ended December 31, 2002 and 2001, respectively.

The UPC Plan was accounted for as a variable plan prior to UPC's initial public offering in February 1999. Accordingly, compensation expense was recognized at each financial statement date based on the difference between the grant price and the estimated fair value of UPC's common stock. Thereafter, the UPC Plan was accounted for as a fixed plan. Compensation expense of $29.2 million, $31.9 million and $30.6 million was recognized in the statement of operations for the years ended December 31, 2003, 2002 and 2001, respectively.

In March 1998, UPC adopted a phantom stock option plan (the "UPC Phantom Plan") which permitted the grant of phantom stock rights in up to 7,200,000 shares of UPC's common stock. The UPC Phantom Plan gave the employee the right to receive payment equal to the difference between the fair value of a share of UPC common stock and the option base price for the portion of the rights vested. The rights were granted at fair value at the time of grant, and generally vested in equal monthly increments over the four-year period following the effective date of grant and were exerciseable for ten years following the effective date of grant. UPC had the option of payment in (i) cash, (ii) freely tradable shares of our Class A common stock or (iii) freely tradable shares of UPC's common stock. The UPC Phantom Plan contained anti-dilution protection and provided that, in certain cases of a change of control, all phantom options outstanding become fully exercisable. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled. The UPC Phantom Plan was accounted for as a variable plan in accordance with its terms, resulting in compensation expense for the difference between the grant price and the fair market value at each financial statement date. Compensation expense (credit) of nil and $(22.8) million was recognized in the statement of operations for the years ended December 31, 2002 and 2001, respectively.

16. Segment Information

Our European operations are currently organized into two principal divisions-UPC Broadband and chellomedia. UPC Broadband provides video services, telephone services and high-speed Internet access services to residential customers, and manages its business by country. chellomedia provides broadband Internet and interactive digital products and services, operates a competitive local exchange carrier business providing telephone and data network solutions to the business market (Priority Telecom) and holds certain investments. In Latin America we also have a Broadband division that provides video services, telephone services and high-speed Internet access services to residential and business customers, and manages its business by country. We evaluate performance and allocate resources based on the results of these segments. The key operating performance criteria used in this evaluation include revenue and “Adjusted EBITDA”. Adjusted EBITDA is the primary measure used by our chief operating decision makers to evaluate segment-operating performance and to decide how to allocate resources to segments. “EBITDA” is an acronym for earnings before interest, taxes, depreciation and amortization. As we use the term, Adjusted EBITDA further removes the effects of cumulative effects of accounting changes, share in results of affiliates, minority interests in subsidiaries, reorganization expense, other income and expense, provision for loss on investments, gain (loss) on sale of investments in affiliates, gain on extinguishment of debt, foreign currency exchange gain (loss), impairment and restructuring charges, certain litigation expenses and stock-based compensation. We believe Adjusted EBITDA is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe Adjusted EBITDA is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within Adjusted EBITDA distorts their ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of Adjusted EBITDA is important because analysts and other investors use it to compare our performance to other companies in our industry. We reconcile the total of the reportable segments’ Adjusted EBITDA to our consolidated net income as presented in the accompanying consolidated statements of operations, because we believe consolidated net income is the most directly comparable financial measure to total segment operating performance. Investors should view Adjusted EBITDA as a supplement to, and not a substitute for, other GAAP measures of income as a measure of operating performance. As discussed above, Adjusted EBITDA excludes, among other items, frequently occurring impairment, restructuring and other charges that would be included in GAAP measures of operating performance.

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Revenue

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 592,223	$ 459,044	$ 365,988
Austria	260,162	198,189	163,073
Belgium	31,586	24,646	22,318
Czech Republic	63,348	44,337	38,588
Norway	95,284	76,430	59,707
Hungary	165,450	124,046	93,206
France	113,946	92,441	83,811
Poland	85,356	76,090	132,669
Sweden	75,057	52,560	40,493
Slovak Republic	25,467	18,852	17,607
Romania	20,189	16,119	12,710
Total	1,528,068	1,182,754	1,030,170
Germany	—	28,069	45,848
Corporate and other(1)	32,563	35,139	51,762
Total	1,560,631	1,245,962	1,127,780
chellomedia			
Priority Telecom(1)	121,330	112,637	206,149
Media(1)	98,463	69,372	75,676
Investments	528	465	—
Total	220,321	182,474	281,825
Intercompany Eliminations	(127,055)	(108,695)	(176,417)
Total	1,653,897	1,319,741	1,233,188
Latin America:			
Broadband			
Chile	229,835	186,426	166,590
Brazil, Peru, Uruguay	7,798	7,054	6,044
Total	237,633	193,480	172,634
Australia			
Broadband	—	—	145,423
Content	—	—	9,973
Other	—	—	235
Total	—	—	155,631
Corporate and other (United States)	—	1,800	441
Total	$ 1,891,530	$ 1,515,021	$ 1,561,894

(1) Primarily The Netherlands.

Adjusted EBITDA

	Year Ended December 31, 2003	2002	2001
		(In thousands)	
Europe:			
UPC Broadband			
The Netherlands	$ 267,075	$ 119,329	$ 40,913
Austria	98,278	64,662	40,583
Belgium	12,306	8,340	4,367
Czech Republic	24,657	9,241	9,048
Norway	27,913	17,035	5,337
Hungary	63,357	41,487	26,555
France	13,920	(10,446)	(25,678)
Poland	24,886	15,794	(8,633)
Sweden	31,827	15,904	6,993
Slovak Republic	10,618	4,940	2,802
Romania	7,545	6,044	3,165
Other	386	535	1,434
Total	582,768	292,865	106,886
Germany	—	12,562	22,197
Corporate and other(1)	(46,091)	(25,727)	(93,781)
Total	536,677	279,700	35,302
chellomedia			
Priority Telecom(1)	14,530	(3,809)	(79,758)
Media(1)	22,874	(4,851)	(100,599)
Investments	(1,033)	(374)	—
Total	36,371	(9,034)	(180,357)
Total	573,048	270,666	(145,055)
Latin America:			
Broadband			
Chile	69,951	41,959	26,860
Brazil, Peru, Uruguay	8	(3,475)	(4,016)
Total	69,959	38,484	22,844
Australia			
Broadband	—	—	(32,338)
Content	—	—	(6,849)
Other	—	(282)	(832)
Total	—	(282)	(40,019)
Corporate and other (United States)	(14,125)	(12,494)	(29,013)
Total	$ 628,882	$ 296,374	$ (191,243)

(1) Primarily The Netherlands.

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Total segment Adjusted EBITDA reconciles to consolidated net income (loss) as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Total segment Adjusted EBITDA	$ 628,882	$ 296,374	$ (191,243)
Depreciation and amortization	(808,663)	(730,001)	(1,147,176)
Impairment of long-lived assets	(402,239)	(436,153)	(1,320,942)
Restructuring charges and other	(35,970)	(1,274)	(204,127)
Stock-based compensation	(38,024)	(28,228)	(8,818)
Operating income (loss)	(656,014)	(899,282)	(2,872,306)
Interest expense, net	(314,078)	(641,786)	(966,134)
Foreign currency exchange gain (loss), net	121,612	739,794	(148,192)
Gain on extinguishment of debt	2,183,997	2,208,782	3,447
Gain (loss) on sale of investments in affiliates, net	279,442	117,262	(416,803)
Other expense, net	(14,884)	(120,832)	(265,512)
Income (loss) before income taxes and other items	1,600,075	1,403,938	(4,665,500)
Other, net	395,293	(415,670)	150,735
Income (loss) before cumulative effect of change in accounting principle	1,995,368	988,268	(4,514,765)
Cumulative effect of change in accounting principle	—	(1,344,722)	20,056
Net income (loss)	$ 1,995,368	$ (356,454)	$ (4,494,709)

	Investments in Affiliates		Long-Lived Assets		Total Assets	
	December 31,		December 31,		December 31,	
	2003	2002	2003	2002	2003	2002
			(In thousands)			
Europe:						
UPC Broadband						
The Netherlands	$ 222	$ 215	$ 1,334,294	$ 1,310,783	$ 2,493,134	$ 1,884,044
Austria	—	—	307,758	282,628	700,209	450,526
Belgium	—	—	22,596	22,395	88,725	44,444
Czech Republic	—	—	117,527	120,863	201,103	127,691
Norway	—	—	219,651	226,981	280,528	249,761
Hungary	1,708	—	249,515	251,120	541,139	343,287
France	—	—	246,307	573,167	274,180	608,650
Poland	15,049	3,277	118,586	124,088	302,216	245,122
Sweden	—	—	94,414	87,339	321,961	237,619
Slovak Republic	—	—	35,697	26,896	67,027	33,428
Romania	—	—	15,235	9,403	42,503	31,078
Total	16,979	3,492	2,761,580	3,035,663	5,312,725	4,255,650
Corporate and other(1)	65,279	112,507	14,154	39,455	374,876	576,568
Total	82,258	115,999	2,775,734	3,075,118	5,687,601	4,832,218
chellomedia						
Priority Telecom(1)	3,232	—	182,491	202,986	241,909	261,301
Media(1)	2,257	4,037	43,578	48,625	232,527	72,554
Total	5,489	4,037	226,069	251,611	474,436	333,855
Total	87,747	120,036	3,001,803	3,326,729	6,162,037	5,166,073
Latin America:						
Broadband						
Chile	—	—	322,606	293,941	602,762	509,376
Brazil, Peru, Uruguay	3,522	33,817	9,584	9,448	18,388	55,381
Total	3,522	33,817	332,190	303,389	621,150	564,757
Corporate and other (United States)	3,969	—	8,750	10,093	316,484	200,764
Total	$ 95,238	$ 153,853	$ 3,342,743	$ 3,640,211	$ 7,099,671	$ 5,931,594

(1) Primarily The Netherlands.

UNITEDGLOBALCOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Depreciation and Amortization Year Ended December 31,			Capital Expenditures Year Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(In thousands)					
Europe:						
UPC Broadband						
The Netherlands	$ (225,638)	$ (230,852)	$ (252,356)	$ (63,451)	$ (97,841)	$ (213,846)
Austria	(85,589)	(71,924)	(68,513)	(43,751)	(38,388)	(92,679)
Belgium	(6,877)	(5,952)	(7,531)	(3,473)	(2,884)	(8,367)
Czech Republic	(18,665)	(16,317)	(24,577)	(12,294)	(4,706)	(26,287)
Norway	(36,765)	(37,288)	(35,918)	(9,714)	(7,050)	(60,562)
Hungary	(39,102)	(34,889)	(35,202)	(23,004)	(16,659)	(31,599)
France	(99,913)	(85,940)	(78,732)	(48,810)	(19,688)	(114,596)
Poland	(28,487)	(28,517)	(126,855)	(8,476)	(4,464)	(35,628)
Sweden	(19,668)	(13,519)	(37,098)	(9,778)	(8,974)	(28,767)
Slovak Republic	(8,939)	(7,478)	(13,124)	(3,848)	(501)	(5,005)
Romania	(2,984)	(2,494)	(1,578)	(5,286)	(4,547)	(3,433)
Total	(572,627)	(535,170)	(681,484)	(231,885)	(205,702)	(620,769)
Germany	—	(9,240)	(107,799)	—	(3,357)	(12,788)
Corporate and other(1)	(86,939)	(61,543)	(74,420)	(35,666)	(6,491)	(47,773)
Total	(659,566)	(605,953)	(863,703)	(267,551)	(215,550)	(681,330)
chellomedia						
Priority Telecom(1)	(60,952)	(45,239)	(80,887)	(16,727)	(30,658)	(69,710)
UPC Media(1)	(17,706)	(20,565)	(37,305)	(5,779)	(6,241)	(50,051)
Total	(78,658)	(65,804)	(118,192)	(22,506)	(36,899)	(119,761)
Total	(738,224)	(671,757)	(981,895)	(290,057)	(252,449)	(801,091)
Latin America:						
Broadband						
Chile	(66,928)	(54,458)	(54,027)	(41,391)	(80,006)	(135,821)
Brazil, Peru, Uruguay	(2,206)	(2,371)	(7,824)	(1,582)	(2,679)	(10,418)
Total	(69,134)	(56,829)	(61,851)	(42,973)	(82,685)	(146,239)
Australia						
Broadband	—	—	(100,489)	—	—	(48,291)
Other	—	—	(1,282)	—	—	—
Total	—	—	(101,771)	—	—	(48,291)
Corporate and other (United States)	(1,305)	(1,415)	(1,659)	(94)	(58)	(790)
Total	$ (808,663)	$ (730,001)	$ (1,147,176)	$ (333,124)	$ (335,192)	$ (996,411)

(1) Primarily The Netherlands.

17. Impairment of Long-Lived Assets

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
UPC Broadband	$ (402,239)	$ (75,305)	$ (682,633)
Priority Telecom	—	(359,237)	(418,413)
Swiss wireless license	—	—	(91,260)
Microsoft contract acquisition rights	—	—	(59,831)
Other	—	(1,611)	(68,805)
Total	$ (402,239)	$ (436,153)	$ (1,320,942)

2003

During the fourth quarter of 2003, various events took place that indicated the long-lived assets in our French asset group were potentially impaired: 1) We entered into preliminary discussions regarding the merger of our French assets into a new company, which indicated a potential decline in the fair value of these assets; 2) We made downward revisions to the revenue and Adjusted EBITDA projections for France in our long-range plan, due to actual results continuing to fall short of expectations; and 3) We performed a fair value analysis of all the assets of UGC Europe in connection with the UGC Europe Exchange Offer that confirmed a decrease in fair value of our French assets. As a result, we determined a triggering event had occurred in the fourth quarter of 2003. We performed a cash flow analysis, which indicated the carrying amount of our long-lived assets in France exceeded the sum of the undiscounted cash flows expected to result from the use of these assets. Accordingly, we performed a discounted cash flow analysis (supported by the independent valuation from the UGC Europe Exchange Offer), and recorded an impairment of $384.9 million and $8.4 million for the difference between the fair value and the carrying amount of property, plant and equipment and other long-lived assets, respectively. We also recorded a total of $8.9 million for other impairments in 2003.

2002

Based on our annual impairment test as of December 31, 2002 in accordance with SFAS 142, we recorded an impairment charge of $344.8 million and $18.0 million on goodwill related to Priority Telecom and UPC Romania, respectively. In addition, we wrote off other tangible assets in The Netherlands, Norway, France, Poland, Slovak Republic, Czech Republic and Priority Telecom amounting to $73.4 million for the year ended December 31, 2002.

2001

Due to the lack of financial resources to fully develop the triple play in Germany, and due to our inability to find a partner to help implement this strategy, the long range plans of UPC Germany were revised in 2001 to provide for a “care and maintenance” program, meaning that the business plan would be primarily focused on current customers and product offerings instead of a planned roll out of new service offerings. As a result of this revised business plan, we determined that a triggering event had occurred with respect to this investment in the fourth quarter of 2001, as defined in SFAS No. 121 *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (“SFAS 121”). After analyzing the projected undiscounted free cash flows (without interest), an impairment charge was deemed necessary. The amount of the charge was determined by evaluating the estimated fair value of our investment in UPC Germany using a discounted cash flow approach, resulting in an impairment charge of $682.6 million for the year ended December 31, 2001.

During the second quarter of 2001, we identified indicators of possible impairment of long-lived assets, principally indefeasible rights of use and related goodwill within our subsidiary Priority Telecom. Such indicators included significant declines in the market value of publicly traded telecommunications providers and a change, subsequent to the acquisition of Cignal, in the way that certain assets from the Cignal acquisition were being used within Priority Telecom. We revised our strategic plans for using these assets because of reduced levels of private equity funding activity for these businesses and our decision to complete a public listing of Priority Telecom in the second half of 2001. The changes in strategic plans included a decision to phase out the legacy international wholesale voice operations of Cignal. When we and Priority Telecom reached agreement to acquire Cignal in the second quarter of 2000, the companies originally intended to continue the international wholesale voice operations of Cignal for the foreseeable future. This original plan for the international wholesale voice operations was considered in the determination of the consideration paid for Cignal. In 2001, using the strategic plan prepared in connection with the public listing of Priority Telecom, an impairment assessment test and measurement in accordance with SFAS 121 was completed, resulting in a write down of tangible assets, related goodwill and other impairment charges of $418.4 million for the year ended December 31, 2001.

In 2000 we acquired a license to operate a wireless telecommunications system in Switzerland. During the fourth quarter of 2001, in connection with our overall strategic review, we determined that we were not in a position to develop this asset as a result of both funding constraints and a change in strategic focus away from the wireless business, resulting in a write down of the value of this asset to nil and a charge of $91.3 million for the year ended December 31, 2001.

As a result of issuing warrants to acquire common stock of UPC during 1999 and 2000, we recorded €150.2 million in contract acquisition rights. These rights were being amortized over the three-year term of an interim technology agreement. During the fourth quarter of 2001, this interim technology agreement was terminated, and the remaining unamortized contract acquisition rights totaling $59.8 million were written off.

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18. Restructuring Charges and Other

In 2001, UPC implemented a restructuring plan to both lower operating expenses and strengthen its competitive and financial position. This included eliminating certain employee positions, reducing office space and related overhead expenses, rationalization of certain corporate assets, recognizing losses related to excess capacity under certain contracts and canceling certain programming contracts. The total workforce reduction was effected through attrition, involuntary terminations and reorganization of UPC's operations to permanently eliminate open positions resulting from normal employee attrition. The following table summarizes these costs by type as of December 31, 2003:

	Employee Severence and Termination(2)	Office Closures	Programming and Lease Contract Termination	Asset Disposal Losses and Other	Total
			(In thousands)		
Restructuring charges	$ 46,935	$ 16,304	$ 93,553	$ 47,335	$ 204,127
Cash paid and other releases	(13,497)	(6,386)	(14,814)	(3,294)	(37,991)
Foreign currency translation adjustments	127	38	12,468	(29,537)	(16,904)
Restructuring liability as of December 31, 2001	33,565	9,956	91,207	14,504	149,232
Restructuring charges (credits)	13,675	7,884	(32,035)	11,750	1,274
Cash paid and other releases	(30,944)	(4,622)	(32,231)	(24,449)	(92,246)
Foreign currency translation adjustments	3,133	978	9,920	2,590	16,621
Restructuring liability as of December 31, 2002	19,429	14,196	36,861	4,395	74,881
Restructuring charges (credits)(1)	177	7,506	—	(605)	7,078
Cash paid and other releases	(13,628)	(5,934)	(5,981)	(1,991)	(27,534)
Foreign currency translation adjustments	2,427	1,053	3,519	643	7,642
Restructuring liability as of December 31, 2003	$ 8,405	$ 16,821	$ 34,399	$ 2,442	$ 62,067
Short-term portion	$ 3,682	$ 6,002	$ 3,795	$ 794	$ 14,273
Long-term portion	4,723	10,819	30,604	1,648	47,794
Total	$ 8,405	$ 16,821	$ 34,399	$ 2,442	$ 62,067

(1) Restructuring charges and other in 2003 also includes other litigation settlements totaling $22.2 million and costs incurred by UGC Europe related to the UGC Europe Exchange Offer and merger of $6.7 million.

(2) Included nil and 45 employees scheduled for termination as of December 31, 2003 and 2002, respectively.

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19. Income Taxes

The significant components of our consolidated deferred tax assets and liabilities are as follows:

	December 31, 2003	December 31, 2002
	(In thousands)	
Deferred tax assets:		
Tax net operating loss carryforward of consolidated foreign subsidiaries	$ 1,017,895	$ 1,431,785
U.S. tax net operating loss carryforward	9,258	—
Accrued interest expense	20,985	91,036
Investment valuation allowance and other	33,619	22,442
Property, plant and equipment, net	310,657	40,063
Intangible assets, net	20,701	—
Other	48,743	38,213
Total deferred tax assets	1,461,858	1,623,539
Valuation allowance	(1,331,778)	(1,607,089)
Deferred tax assets, net of valuation allowance	130,080	16,450
Deferred tax liabilities:		
Cancellation of debt and other	(110,583)	(110,583)
Intangible assets	(82,679)	(12,056)
Other	(25,937)	(41)
Total deferred tax liabilities	(219,199)	(122,680)
Deferred tax liabilities, net	$ (89,119)	$ (106,230)

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The difference between income tax expense (benefit) provided in the accompanying consolidated financial statements and the expected income tax expense (benefit) at statutory rates is reconciled as follows:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Expected income tax expense (benefit) at the U.S. statutory rate of 35%	$ 560,026	$ 491,379	$ (1,632,925)
Tax effect of permanent and other differences:			
Change in valuation allowance	(516,810)	173,604	814,612
Gain on sale of investment in affiliate	(133,211)	(51,774)	—
Tax ruling regarding UPC reorganization	107,922	—	—
Enacted tax law changes, case law and rate changes	(92,584)	—	—
Revenue for book not for tax	75,308	—	—
Other	26,122	(11,415)	(5,063)
Financial instruments	15,280	95,178	—
Non-deductible interest accretion	8,680	110,974	81,149
State tax, net of federal benefit	7,193	42,118	(139,965)
International rate differences	(5,857)	58,407	187,027
Non-deductible foreign currency exchange results	(3,595)	(104,598)	—
Non-deductible expenses	1,870	12,024	14,740
Gain on extinguishment of debt	—	(728,754)	(1,310)
Goodwill impairment	—	114,039	559,028
Amortization of goodwill	—	—	84,020
Gain on issuance of common equity securities by subsidiaries	—	—	(1,974)
Total income tax expense (benefit)	$ 50,344	$ 201,182	$ (40,661)

Income tax expense (benefit) consists of:

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Current:			
U.S. Federal	$ 1,008	$ 23,801	$ —
State and local	1,674	4,966	—
Foreign jurisdiction	2,916	5,592	2,506
	5,598	34,359	2,506
Deferred:			
U.S. Federal	$ 61,768	$ 138,746	$ —
State and local	8,519	19,136	—
Foreign jurisdiction	(25,541)	8,941	(43,167)
	44,746	166,823	(43,167)
Income tax expense (benefit)	$ 50,344	$ 201,182	$ (40,661)

The significant components of our foreign tax loss carryforwards are as follows:

Country	Tax Loss Carryforward	Tax Asset	Expiration Date
The Netherlands	$ 1,293,157	$ 446,139	Indefinite
France	786,516	278,662	Indefinite
Norway	302,860	84,801	2007–2012
Chile	273,619	45,147	Indefinite
Austria	226,173	76,899	Indefinite
Hungary	142,158	22,746	2004–2009
Poland	88,286	16,774	2004–2008
Other	163,602	46,727	Various
Total	$ 3,276,371	$ 1,017,895	

Foreign Tax Issues

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be “controlled foreign corporations” (“CFC”) under U.S. tax law (the “Code”). In general, a U.S. corporation that is a shareholder in a CFC may be required to include in its income the average adjusted tax basis of any investment in U.S. property held by a wholly or majority owned CFC to the extent that the CFC has positive current or accumulated earnings and profits. This is the case even though the U.S. corporation may not have received any actual cash distributions from the CFC. In addition, certain income earned by most of our foreign subsidiaries during a taxable year when our subsidiaries have positive earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred to as “Subpart F income,” generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income. Since we and a majority of our subsidiaries are investors in, or are involved in, foreign businesses, we could have significant amounts of Subpart F income. Although we intend to take reasonable tax planning measures to limit our tax exposure, there can be no assurance we will be able to do so.

In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend. Because we must calculate our foreign tax credit separately for dividends received from certain of our foreign subsidiaries from those of other foreign subsidiaries and because of certain other limitations, our ability to claim a foreign tax credit may be limited. Some of our operating companies are located in countries with which the U.S. does not have income tax treaties. Because we lack treaty protection in these countries, we may be subject to high rates of withholding taxes on distributions and other payments from these operating companies and may be subject to double taxation on our income. Limitations on the ability to claim a foreign tax credit, lack of treaty protection in some countries, and the inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal tax rate on our earnings. Since substantially all of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the U.S., these risks are proportionately greater for us than for companies that generate most of their revenue in the U.S. or in jurisdictions that have these treaties.

We through our subsidiaries maintain a presence in 15 countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the U.S., such as a value added tax system. We have accounted for the effect of foreign taxes based on what we believe is reasonably expected to apply to us and our subsidiaries based on tax laws currently in effect and/or reasonable interpretations of these laws. Because some foreign jurisdictions do not have systems of taxation that are as well established as the system of income taxation used in the U.S. or tax regimes used in other major industrialized countries, it may be difficult to anticipate how foreign jurisdictions will tax our and our subsidiaries' current and future operations.

UPC discharged a substantial amount of debt in connection with its reorganization. Under Dutch tax law, the discharge of UPC's indebtedness in connection with its reorganization would generally constitute taxable income to UPC in the period of discharge. UPC has reached an agreement with the Dutch tax authorities whereby UPC is able to utilize net operating loss carry forwards to offset any Dutch income taxes arising from the discharge of debt in 2003. UPC, together with its "fiscal unity" companies, expects that for the year ended December 31, 2003 it will have sufficient current year and carry forward losses to fully offset any income to be recognized on the discharge of the debt.

20. Earnings Per Share

	Year Ended December 31,		
	2003	2002 (In thousands)	2001
Numerator (Basic):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	—	—
Equity transactions of subsidiaries	6,555	—	—
Accrual of dividends on Series B convertible preferred stock	—	(156)	(1,873)
Accrual of dividends on Series C convertible preferred stock	—	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	—	(1,621)	(20,125)
Basic income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,094	(4,566,513)
Cumulative effect of change in accounting principle	—	(1,344,722)	20,056
Basic net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,628)	$ (4,546,457)
Denominator (Basic):			
Basic weighted-average number of common shares outstanding, before adjustment	418,874,941	390,087,623	99,834,387
Adjustment for rights offering in February 2004	43,149,291	40,183,842	10,284,175
Basic weighted-average number of common shares outstanding	462,024,232	430,271,465	110,118,562
Numerator (Diluted):			
Income (loss) before cumulative effect of change in accounting principle	$ 1,995,368	$ 988,268	$ (4,514,765)
Gain on issuance of Class A common stock for UGC Europe preference shares	1,423,102	—	—
Equity transactions of subsidiaries	6,555	—	—
Accrual of dividends on Series B convertible preferred stock	—	—	(1,873)
Accrual of dividends on Series C convertible preferred stock	—	(2,397)	(29,750)
Accrual of dividends on Series D convertible preferred stock	—	(1,621)	(20,125)
Diluted income (loss) attributable to common stockholders before cumulative effect of change in accounting principle	3,425,025	984,250	(4,566,513)
Cumulative effect of change in accounting principle	—	(1,344,722)	20,056
Diluted net income (loss) attributable to common stockholders	$ 3,425,025	$ (360,472)	$ (4,546,457)

	Year Ended December 31,		
	2003	2002	2001
		(In thousands)	
Denominator (Diluted):			
Basic weighted-average number of common shares outstanding, as adjusted	462,024,232	430,271,465	110,118,562
Incremental shares attributable to the assumed exercise of outstanding stock appreciation rights	109,544	—	—
Incremental shares attributable to the assumed exercise of contingently issuable shares	92,470	—	—
Incremental shares attributable to the assumed exercise of outstanding options (treasury stock method)	220,115	9,701	—
Incremental shares attributable to the assumed conversion of Series B convertible preferred stock	—	224,256	—
Diluted weighted-average number of common shares outstanding	462,446,361	430,505,422	110,118,562

21. Related Party Transactions

Loans to Officers and Directors

In 2000 and 2001, Old UGC made loans through a subsidiary to Michael T. Fries, Mark L. Schneider and John F. Riordan, each of whom at the time was a director or an executive officer of Old UGC. The loans, totaling approximately $16.6 million, accrued interest at 90-day LIBOR plus 2.5% or 3.5%, as determined in accordance with the terms of each note. The purpose of the loans was to enable these individuals to repay margin debt secured by common stock of Old UGC or its subsidiaries without having to liquidate their stock ownership positions in Old UGC or its subsidiaries. Each loan was secured by certain outstanding stock options and phantom stock options issued by Old UGC and its subsidiaries to the borrower, and certain of the loans were also secured by common stock of Old UGC and its subsidiaries held by the borrower. Initially the loans were recourse to the borrower, however, in April 2001, the Old UGC board of directors revised the loans to be non-recourse to the borrower, except to the extent of any pledged collateral. Accordingly, such amounts have been reflected as a reduction of stockholders’ equity. The written documentation for these loans provided that they were payable on demand, or, if not paid sooner, on November 22, 2002. On January 22, 2003, we notified Mr. Fries and Mr. Schneider of foreclosure on all of the collateral securing the loans, which loans had an outstanding balance on such date, including interest, of approximately $8.8 million. Our board of directors authorized payment to Mr. Fries and Mr. Schneider a bonus in the aggregate amount of approximately $1.7 million to pay the taxes resulting from the foreclosure and the bonus. On January 6, 2004, we notified Mr. Riordan of foreclosure on all of the collateral securing his loans, which loans had an outstanding balance on such date, including interest, of approximately $10.1 million.

Merger Transaction Loans

When Old UGC issued shares of its Series E preferred stock in connection with the merger transaction with Liberty in January 2002, the Principal Founders delivered full-recourse promissory notes to Old UGC in the aggregate amount of $3.0 million in partial payment of their subscriptions for the Series E preferred stock. The loans evidenced by these promissory notes bear interest at 6.5% per annum and are due and payable on demand on or after January 30, 2003, or on January 30, 2007 if no demand has been made by then. Such amounts have been reflected as a reduction of stockholders’ equity, as such transactions are accounted for as variable option awards because the loans do not meet the criteria of recourse loans for accounting purposes.

Mark L. Schneider Transactions

In 1999, chello broadband loaned Mr. Schneider €2,268,901 so that he could acquire certificates evidencing the economic value of stock options granted to Mr. Schneider in 1999 for chello broadband ordinary shares B. This recourse loan, which is due and payable upon the sale of the certificates or the expiration of the stock options, bears no interest. Interest, however, is imputed and the tax payable on the imputed interest is added to the principal amount of the loan. In 2000, Mr. Schneider exercised chello broadband options through the sale of the certificates acquired with the loans proceeds. Of the funds received, €823,824 was withheld for payment of the portion of the loan associated with the options exercised. In addition, chello broadband cancelled the unvested options and related loan amount in May 2003. The outstanding loan balance was €380,197 at December 31, 2003.

Gene W. Schneider Employment Agreement

On January 5, 2004, we entered into a five-year employment agreement with Mr. Gene W. Schneider. Pursuant to the employment agreement, Mr. Schneider shall continue to serve as the non-executive chairman of our Board for so long as requested by our Board, and is subject to a five year non-competition obligation (regardless of when his employment under the employment agreement is terminated). In exchange, Mr. Schneider shall receive an annual base salary of not less than his current base salary, is eligible to participate in all welfare benefit plans or programs covering UGC's senior executives generally, and is entitled to receive certain additional fringe benefits. The employment agreement terminates upon Mr. Schneider's death. We may terminate him for certain disabilities and for cause. Mr. Schneider may terminate the employment agreement for any reason on thirty days notice to UGC. If the employment agreement is terminated for death or disability, we shall make certain payments to Mr. Schneider or his personal representatives, as appropriate, for his annual base salary accrued through the termination date, the amount of any annual base salary that would have accrued from the termination date through the end of the employment period had Mr. Schneider's employment continued through the end of the five year term, and compensation previously deferred by Mr. Schneider, if any, but not paid to him. Certain stock options and other equity-based incentives granted to Mr. Schneider shall remain exercisable until the third anniversary of the termination date (but not beyond the term of the award). Upon Mr. Schneider's election to terminate the employment agreement early, he is entitled to certain payments from us. If the employment agreement is terminated for cause by us, we have no further obligations to Mr. Schneider under the agreement, except with respect to certain compensation accrued through the date of termination and compensation previously deferred, if any, by Mr. Schneider.

Spinhalf Contract

In 2002, a subsidiary of UPC entered into a contract with Spinhalf Ltd for the provision of network services. This company is owned by a family member of John F. Riordan, a former director and former Chief Executive Officer of UPC. Amounts incurred with respect to such contracted services to date are approximately €7.8 million. We terminated the network support contract with Spinhalf during 2003.

Gene W. Schneider Life Insurance

In 2001, Old UGC's board of directors approved a "split-dollar" policy on the lives of Gene W. Schneider and his spouse for $30 million. Old UGC agreed to pay an annual premium of approximately $1.8 million for this policy, which has a roll-out period of approximately 15 years. Old UGC's board of directors believed that this policy was a reasonable addition to Mr. Schneider's compensation package in view of his many years of service to Old UGC. Following the enactment of the Sarbanes-Oxley Act of 2002, no additional premiums have been paid by Old UGC. The policy is being continued by payments made out of the cash surrender value of the policy. In the event the law is subsequently clarified to permit Old UGC to again make the premium payments on the policy, Old UGC will pay the premiums annually until the first to occur of the death of both insureds, the lapse of the roll-out period, or at such time as The Gene W. Schneider Trust (the “2001 Trust”) fails to make its contribution to Old UGC for the premiums due on the policy. The 2001 Trust is the sole owner and beneficiary of the policy, but has assigned to Old UGC policy benefits in the amount of premiums paid by Old UGC. The Trust will contribute to Old UGC an amount equal to the annual economic benefit provided by the policy. The trustees of the Trust are the children of Mr. Schneider. Upon termination of the policy, Old UGC will recoup the premiums that it has paid.

Programming Agreements

In the ordinary course of business, we acquire programming from various vendors, including Discovery Communications, Inc. (“Discovery”), Pramer S.C.A. (“Pramer”) and Torneos y Competencias, S.A. (“TyC”). Liberty has a 50% equity interest in Discovery and a 40% equity interest in TyC. Pramer is an indirect wholly-owned subsidiary of Liberty. VTR has programming agreements with Discovery, TyC and Pramer. The cost of these agreements with VTR is approximately $4.2 million per year. UGC Europe has programming agreements with Discovery and the cost of these agreements is approximately $9.8 million per year. All of the agreements have a fixed term with maturities ranging from August 2004 to year-end 2006, however, most of the agreements will automatically renew for an additional year unless terminated upon prior notice.

22. Subsequent Events

Liberty Acquisition of Controlling Interest

On January 5, 2004, Liberty acquired approximately 8.2 million shares of Class B common stock from our founding stockholders in exchange for securities of Liberty and cash (the “Founders Transaction”). Upon the completion of this exchange and subsequent acquisitions of our stock, Liberty owns approximately 55% of our common stock, representing approximately 92% of the voting power. Beginning with the next annual meeting of our stockholders, the holders of our Class A, Class B and Class C common stock will vote together as a single class in the election of our directors. Liberty now has the ability to elect our entire board of directors and otherwise to generally control us. The closing of the Founders Transaction resulted in a change of control of us.

Upon closing of the Founders Transaction, our existing standstill agreement with Liberty terminated, except for provisions of that agreement granting Liberty preemptive rights to acquire shares of our Class A common stock. These preemptive rights will survive indefinitely, as modified by an agreement dated November 12, 2003, between Liberty and us. The former standstill agreement restricted the amount of our stock that Liberty could acquire and restricted the way Liberty could vote our stock. On January 5, 2004, Liberty entered into a new standstill agreement with us that generally limits Liberty’s ownership of our common stock to 90% or less, unless Liberty makes an offer or effects another transaction to acquire all of our common stock. Except in the case of a short-form merger in which our stockholders are entitled to statutory appraisal rights, such offer or transaction must be at a price at or above a fair value of our shares determined through an appraisal process if a majority of our independent directors has voted against approval or acceptance of such transaction.

Prior to January 5, 2004, we understand that Liberty accounted for its investment in us under the equity method of accounting, as certain voting and standstill agreements entered into between them and the Founders precluded Liberty’s ability to control us. Liberty’s acquisition of the Founders’ shares on January 5, 2004 caused those voting restrictions to terminate and allows Liberty to fully exercise their voting rights and control us. As a result, Liberty began consolidating us from the date of that transaction. Liberty has elected to push down its investment basis in us (and the related purchase accounting adjustments) as part of its consolidation process. The effects of this pushdown accounting will likely reduce our total assets and stockholders’ equity by a material amount and could have a material effect on our statement of operations.

Liberty Exercise of Preemptive Right

Pursuant to the terms of a standstill agreement, if we propose to issue any of our Class A common stock or rights to acquire our Class A common stock, Liberty has the right, but not the obligation, to purchase a portion of such issuance sufficient to maintain its then existing equity percentage in us on terms at least as favorable as those given to any third party purchasers. This preemptive right does not apply to (i) the issuance of our Class A common stock or rights to acquire our Class A common stock in connection with the acquisition of a business from a third party not affiliated with us or any founder that is directly related to the existing business of us and our subsidiaries, (ii) the issuance of options to acquire our Class A common stock to employees pursuant to employee benefit plans approved by our board (such options and all shares issued pursuant thereto not to exceed 10% of our outstanding common stock), (iii) equity securities issued as a dividend on all equity securities or upon a subdivision or combination of all outstanding equity securities, or (iv) equity securities issued upon the exercise of rights outstanding as of the closing of the merger or as to the issuance of which Liberty had the right to exercise preemptive rights. Based on the foregoing provisions, in January 2004, Liberty exercised its preemptive right, based on shares of Class A common stock issued by us in the UGC Europe Exchange Offer. As a result, Liberty acquired approximately 18.3 million shares of our Class A common stock at $7.6929 per share. Liberty paid for the shares through the cancellation of $102.7 million of notes we owed Liberty, the cancellation of $1.7 million of accrued but unpaid interest on those notes and $36.3 million in cash.

Rights Offering

We distributed to our stockholders of record on January 21, 2004, transferable subscription rights to purchase shares of our Class A, Class B and Class C common stock at a per share subscription price of $6.00. The rights offering, which expired on February 12, 2004, was fully subscribed, resulting in gross proceeds to us of approximately $1.0 billion. We issued approximately 83.0 million shares of our Class A common stock, 2.3 million shares of Class B common stock and 84.9 million shares of our Class C common stock in the rights offering.

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EXHIBIT INDEX

Exhibit No.	Description
2 — Plan of Acquisition Reorganization, Arrangement, Liquidation or Succession:	
2.1	Agreement and Plan of Merger, dated as of January 17, 2005, among New Cheetah, Inc. (now known as Liberty Global, Inc.), the Registrant, UnitedGlobalCom, Inc. (“UGC”), Cheetah Acquisition Corp. and Tiger Global Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Registrant’s Current Report on Form 8-K, dated January 17, 2005)
3 — Articles of Incorporation and Bylaws:	
3.1	Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form 10, dated April 2, 2004 (File No. 000-50671) (the “Form 10”))
3.2	Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registrant’s Registration Statement on Form 10, dated May 25, 2004 (File No. 000-50671) (the “Form 10 Amendment”))
4 — Instruments Defining the Rights of Securities Holders, including Indentures:	
4.1	Specimen certificate for shares of Series A common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.1 to the Form 10)
4.2	Specimen certificate for shares of Series B common stock, par value $.01 per share, of the Registrant (incorporated by reference to Exhibit 4.2 to the Form 10)
4.3	Indenture, dated as of April 6, 2004, between UGC and The Bank of New York (incorporated by reference to Exhibit 4.1 to UGC’s Current Report on Form 8-K, dated April 6, 2004 (File No. 000-496-58) (the “UGC April 2004 8-K”))
4.4	Registration Rights Agreement, dated as of April 6, 2004, between UGC and Credit Suisse First Boston (incorporated by reference to Exhibit 10.1 to the UGC April 2004 8-K)
4.5	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding B.V. (“UPC Broadband”) and UPC Financing Partnership (“UPC Financing”), as Borrowers, the guarantors listed therein, and TD Bank Europe Limited, as Facility Agent and Security Agent, including as Schedule 3 thereto the Restated €1,072,000,000 Senior Secured Credit Facility, originally dated January 16, 2004, among UPC Broadband, as Borrower, the guarantors listed therein, the banks and financial institutions listed therein as Initial Facility D Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and the facility agents under the Existing Facility (as defined therein) (the “2004 Credit Agreement”) (incorporated by reference to Exhibit 10.32 to UGC’s Annual Report on Form 10-K, dated March 14, 2005 (File No. 000-496-58) (the “UGC 2004 10-K”))
4.6	Additional Facility Accession Agreement, dated June 24, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility E Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.2 to UGC’s Current Report on Form 8-K, dated June 29, 2004 (File No. 000-496-58))
4.7	Additional Facility Accession Agreement, dated December 2, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility F Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.1 to UGC’s Current Report on Form 8-K, dated December 2, 2004 (File No. 000-496-58))
4.8	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility G Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.39 to the UGC 2004 10-K)
4.9	Additional Facility Accession Agreement, dated March 7, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility H Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.40 to the UGC 2004 10-K

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Exhibit No.	Description
4.10	Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K)
4.11	Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, TD Bank Europe Limited and Toronto Dominion (Texas), Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent, including as Schedule 3 thereto the Restated Credit Agreement, €3,500,000,000 and US$347,500,000 and €95,000,000 Senior Secured Credit Facility, originally dated October 26, 2000, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, the Lead Arrangers listed therein, the banks and financial institutions listed therein as Original Lenders, TD Bank Europe Limited and Toronto-Dominion (Texas) Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent (incorporated by reference to Exhibit 10.33 to the UGC 2004 10-K)
4.12	The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith
10 — Material Contracts:	
10.1	Reorganization Agreement, dated as of May 20, 2004, among Liberty Media Corporation (“Liberty”), the Registrant and the other parties named therein (incorporated by reference to Exhibit 2.1 to the Form 10 Amendment)
10.2	Form of Facilities and Services Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.3 to the Form 10 Amendment)
10.3	Agreement for Aircraft Joint Ownership and Management, dated as of May 21, 2004, between Liberty and the Registrant (incorporated by reference to Exhibit 10.4 to the Form 10 Amendment)
10.4	Form of Tax Sharing Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.5 to the Form 10 Amendment)
10.5	Form of Credit Facility between Liberty and the Registrant (terminated in accordance with its terms) (incorporated by reference to Exhibit 10.6 to the Form 10 Amendment)
10.6	Liberty Media International, Inc. 2004 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 10 Amendment)
10.7	Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (incorporated by reference to Exhibit 10.2 to the Form 10 Amendment)
10.8	Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (incorporated by reference to Exhibit 7(A) to Mr. Malone’s Schedule 13D/ A (Amendment No. 1) with respect to the Registrant’s common stock, dated July 14, 2004 (File No. 005-79904))
10.9	Form of Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q, dated August 16, 2004 (File No. 000-50671) (the “LMI June 2004 10-Q”))
10.10	Form of Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the LMI June 2004 10-Q)
10.11	Liberty Media International, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 4.5 to the Registrant’s Registration Statement on Form S-8, dated June 23, 2004 (File No. 333-116790))
10.12	Description of Director Compensation Policy*
10.13	Form of Indemnification Agreement between the Registrant and its Directors*
10.14	Form of Indemnification Agreement between the Registrant and its Executive Officers*

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Exhibit No.	Description
10.15	Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to UGC's Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58) (the "UGC 2003 10-K"))
10.16	Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
10.17	2003 Equity Incentive Plan of UGC, effective September 1, 2003 (incorporated by reference to Exhibit 10.9 to the UGC 2003 10-K)
10.18	Amended and Restated Stockholders' Agreement, dated as of May 21, 2004, among the Registrant, Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty (incorporated by reference to Exhibit 10.23 to the Form 10 Amendment)
10.19	Standstill Agreement between UGC and Liberty, dated as of January 5, 2004 (incorporated by reference to Exhibit 10.2 to UGC's Current Report on Form 8-K, dated January 5, 2004 (File No. 000-496-58))
10.20	Standstill Agreement among UGC, Liberty and the parties named therein, dated January 30, 2002 (terminated except as to (i) UGC's obligations under the final sentence of Section 9(b) and (ii) Section 7B and the related definitions in Section 1 as set forth in, and as modified by, the Letter Agreement referenced in Exhibit 10.21)(incorporated by reference to Exhibit 10.9 to UGC's Registration Statement on Form S-1, dated February 14, 2002 (File No. 333-82776))
10.21	Letter Agreement, dated November 12, 2003, between UGC and Liberty (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated November 12, 2003 (File No. 000-496-58))
10.22	Share Exchange Agreement, dated as of August 18, 2003, among Liberty and the Stockholders of UGC named therein (incorporated by reference to Exhibit 7(j) to Liberty's Schedule 13D/ A with respect to UGC's Class A common stock, dated August 21, 2003)
10.23	Amendment to Share Exchange Agreement, dated as of December 22, 2003, among Liberty and the Stockholders of UGC named on the signature pages thereto (incorporated by reference to Exhibit 4.5 to Liberty's Registration Statement on Form S-3, dated December 24, 2003 (File No. 333-111564))
10.24	Stock and Loan Purchase Agreement, dated as of March 15, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated July 1, 2004 (File No. 000-496-58) (the "UGC July 2004 8-K"))
10.25	Amendment to the Purchase Agreement, dated as of July 1, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.2 to the UGC July 2004 8-K)
10.26	Shareholders Agreement, dated as of July 1, 2004, among UGC, UPC France Holding BV and Suez SA (incorporated by reference to Exhibit 10.3 to the UGC July 2004 8-K)
10.27	Amended and Restated Operating Agreement dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant*
21 — List of Subsidiaries*	
23 — Consent of Experts and Counsel:	
23.1	Consent of KPMG LLP**
23.2	Consent of KPMG AZSA & Co.**

Exhibit No.	Description
23.3	Consent of KPMG AZSA & Co.**
23.4	Consent of Finsterbusch Pickenhayn Sibille**
23.5	Consent of KPMG LLP**
31 — Rule 13a-14(a)/15d-14(a) Certification:	
31.1	Certification of President and Chief Executive Officer**
31.2	Certification of Senior Vice President and Treasurer**
31.3	Certification of Senior Vice President and Controller**
32 — Section 1350 Certification**	

* Filed with the Registrant's Form 10-K, dated March 14, 2005

** Filed herewith

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Liberty Media International, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-116652, 333-116777, 333-116788, 333-116789, and 333-116790) of Liberty Media International, Inc. of our reports dated March 11, 2005, with respect to the consolidated balance sheets of Liberty Media International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, and all related financial statement schedules, which reports appear in the December 31, 2004 annual report on
Form 10-K/A of Liberty Media International, Inc.

KPMG LLP

Denver, Colorado
April 15, 2005

EXHIBIT 23.2

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Jupiter Telecommunications Co., Ltd. and Subsidiaries:

We consent to the incorporation by reference in the registration statements (Nos. 333-116652, 333-116777, 333-116788, 333-116789 and 333-116790) on Form S-8 of Liberty Media International, Inc. of our report dated February 14, 2005, with respect to the consolidated balance sheets of Jupiter Telecommunications Co., Ltd. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004, Annual Report on Form 10-K/A (Amendment No. 2) of Liberty Media International, Inc.

KPMG AZSA & Co.

Tokyo, Japan
April 15, 2005

EXHIBIT 23.3

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Jupiter Programming Co., Ltd.:

We consent to the incorporation by reference in the registration statements (Nos. 333-116652, 333-116777, 333-116788, 333-116789 and 333-116790) on Form S-8 of Liberty Media International, Inc. of our report dated March 4, 2005, with respect to the consolidated balance sheets of Jupiter Programming Co., Ltd. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the two-year period ended December 31, 2004, which report appears in the December 31, 2004 Annual Report on Form 10-K/A (Amendment No. 2) of Liberty Media International, Inc.

KPMG AZSA & Co.

Tokyo, Japan
April 15, 2005

EXHIBIT 23.4

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Liberty Media International, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-116652, 333-116777, 333-116788, 333-116789 and 333-116790) of Liberty Media International, Inc. of our report dated March 11, 2005, with respect to the consolidated balance sheets of Torneos y Competencias S.A. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows for each of the years in the three-year period ended December 31, 2004, which report appears in the December 31, 2004 Annual Report on Form 10-K/A of Liberty Media International, Inc.

Our report dated March 11, 2004 contains an explanatory paragraph that states that the Company is in default with respect to two bank loans, has certain loans that are past due, and has a net working capital deficiency, which raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

Finsterbusch Pickenhayn Sibille(*)

Buenos Aires, Argentina
April 18, 2005

(*) Finsterbusch Pickenhayn Sibille is the Argentine member firm of KPMG International, a Swiss cooperative.

Exhibit 23.5

Consent of Independent Registered Public Accounting Firm

The Board of Directors
UnitedGlobalCom, Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-116652, 333-116777, 333-116788, 333-116789 and 333-116790) of Liberty Media International, Inc. our report dated March 8, 2004, with respect to the consolidated balance sheets of UnitedGlobalCom, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for the years then ended, included herein.

Our report refers to a change in the Company's method of accounting for goodwill and other intangible assets in 2002, and a change in its method of accounting for gains and losses on the early extinguishment of debt in 2003.

Our report refers to the revisions to the 2001 consolidated financial statements to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which was adopted by the Company as of January 1, 2002. However, we were not engaged to audit, review, or apply any procedures to the 2001 consolidated financial statements of UnitedGlobalCom, Inc. and subsidiaries other than with respect to such disclosures.

KPMG LLP

Denver, Colorado
April 15, 2005

Exhibit 31.1

CERTIFICATION

I, John C. Malone, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 2) of Liberty Media International, 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)) 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) 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

c) 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: April 18, 2005

/s/ John C. Malone

John C. Malone
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Graham E. Hollis, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 2) of Liberty Media International, 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)) 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) 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

c) 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: April 18, 2005

/s/ Graham E. Hollis

Graham E. Hollis
Senior Vice President and Treasurer

Exhibit 31.3

CERTIFICATION

I, Bernard G. Dvorak, certify that:

1. I have reviewed this annual report on Form 10-K/A (Amendment No. 2) of Liberty Media International, 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)) 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) 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

c) 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: April 18, 2005

/s/ Bernard G. Dvorak

Bernard G. Dvorak
Senior Vice President and Controller

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Liberty Media International, Inc., a Delaware corporation (the “Company”), does hereby certify, to such officer’s knowledge, that:

The Annual Report on Form 10-K/A (Amendment No. 2) for the period ended December 31, 2004 (the “Form 10-K/A”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K/A fairly presents, in all material respects, the financial condition and results of operations of the Company as of December 31, 2004 and 2003, and for the three years ended December 31, 2004.

Dated: April 18, 2005	/s/ John C. Malone John C. Malone Chief Executive Officer
Dated: April 18, 2005	/s/ Graham E. Hollis Graham Hollis Senior Vice President and Treasurer (Principal Financial Officer)
Dated: April 18, 2005	/s/ Bernard G. Dvorak Bernard G. Dvorak Senior Vice President and Controller (Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-K/A or as a separate disclosure document.