LIBERTY MEDIA INTERNATIONAL INC
Form 10-K
March 14, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission File Number 000-50671
Liberty Media International, Inc.
(Exact name of Registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:
none
Securities registered pursuant to Section 12(g) of the Act:
Series A Common Stock, par value $0.01 per share
Series B Common Stock, par value $0.01 per share

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

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

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

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

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

7,264,300 shares of Series B common stock.

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.

LIBERTY MEDIA INTERNATIONAL, INC.
2004 ANNUAL REPORT ON FORM 10-K
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Description of Director Compensation Policy
Form of Indemnification Agreement - Directors
Form of Indemnification Agreement - Executive Officers
Amended and Restated Operating Agreement
List of Subsidiaries
Consent of KPMG LLP
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Consent of KPMG AZSA & Co
Certification of President and Chief Executive Officer
Certification of Senior Vice President and Treasurer
Certification of Senior Vice President and Controller

Section 1350 Certification

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PART I

Item 1. BUSINESS

(a) General Development of Business

Through our subsidiaries and affiliates, we provide broadband distribution services and video programming services to subscribers in Europe, Japan, Latin America and Australia. Our principal assets are UnitedGlobalCom, Inc., LMI/ Sumisho Super Media, LLC, Liberty Cablevision of Puerto Rico Ltd. and Pramer S.C.A., each a consolidated subsidiary as of January 1, 2005, and our affiliate, Jupiter Programming Co., Ltd.

Liberty Media International, Inc. (together with its subsidiaries, LMI , we , us , our or similar terms) was formed in March 2004 as a wholly owned subsidiary of Liberty Media Corporation, which we refer to as Liberty. Liberty transferred, and caused its other subsidiaries to transfer to us, substantially all of the assets comprising Liberty s International Group, together with cash and certain financial assets. On June 7, 2004, Liberty distributed to its shareholders, on a pro rata basis, all of our shares of common stock, which we refer to as the spin off, and we became an independent, publicly traded company.

Recent Developments

On January 5, 2004, Liberty completed a transaction pursuant to which the founding shareholders of UnitedGlobalCom, Inc., which we refer to as UGC, transferred to Liberty 8.2 million shares of Class B common stock in exchange for 12.6 million shares of Liberty s common stock and a cash payment. Upon closing of this exchange, the restrictions contained in the existing standstill agreement between Liberty and UGC on the amount of UGC s stock that Liberty could acquire and on the way Liberty could vote its shares of UGC stock terminated and Liberty gained control of UGC. Substantially all of Liberty s direct and indirect interest in UGC and related contract rights were transferred to us prior to the spin off.

On January 12, 2004, Old UGC, Inc., a wholly owned subsidiary of UGC that principally owns UGC s interests in businesses in Latin America and Australia, filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. Old UGC s plan of reorganization, as amended, was confirmed by the Bankruptcy Court on November 10, 2004, and the restructuring of its indebtedness and other obligations pursuant to the plan was completed on November 24, 2004.

In February 2004, UGC issued 83.0 million shares of its Class A common stock, 2.3 million shares of its Class B common stock and 84.9 million shares of its Class C common stock pursuant to a fully subscribed rights offering, resulting in gross proceeds to UGC of $1.02 billion.

Also in February 2004, UPC Polska, Inc., an indirect subsidiary of UGC, emerged from its U.S. bankruptcy proceedings. Pursuant to UPC Polska s plan of reorganization, claim holders received aggregate consideration consisting of cash, new 9% UPC Polska Notes due 2007 and 2.0 million shares of UGC s Class A common stock in exchange for cancellation of their claims. On July 16, 2004, UPC Polska redeemed the new 9% UPC Polska Notes at par plus accrued but unpaid interest.

On April 6, 2004, UGC sold 500 million aggregate principal amount of its 1/4% convertible senior notes due April 15, 2024. The convertible notes are convertible into shares of UGC s Class A common stock at an initial conversion price of 9.7561 per share.

On May 20, 2004, we made secured loans to and acquired all of the issued and outstanding shares of Princes Holdings Limited, pursuant to a restructuring under Irish insolvency laws of the debt and other obligations of Princes Holdings and its wholly owned subsidiary, Chorus Communication Limited. In December 2004, we sold 100% of the equity of Princes Holdings to a subsidiary of UGC for 6.4 million shares of UGC s Class A common stock.

In June 2004, UPC Broadband Holding B.V. (formerly UPC Distribution Holding B.V.), an indirect subsidiary of UGC, amended its senior secured credit facility, which we refer to as the UPC Broadband Bank Facility, to add a new Facility E term loan to replace the undrawn Facility D term loan. Proceeds from

Facility E totaled 1.0 billion, which, in conjunction with 450 million of cash contributed indirectly by UGC, was used to repay some of the indebtedness borrowed under the other tranches of the credit facility, to redeem the 9% UPC Polska Notes referred to above and to provide funding for the Noos acquisition described below. In December 2004, the UPC Broadband Bank Facility was amended to add a new Facility F term loan that increased UPC Broadband s average debt maturity and available liquidity, and reduced its average interest margin. The amendment consisted of a $525.0 million tranche and a 140.0 million tranche, totaling 535.0 million in gross proceeds. These proceeds were applied to (1) repay 245.0 million under the Facility A revolver (representing all then outstanding amounts), (2) prepay 101.2 million of the term loan Facility B that matured in June 2006, (3) prepay 177.0 million of Facility C debt and (4) pay transaction fees of 11.8 million.

On March 8, 2005, the UPC Broadband Bank Facility was further amended to permit indebtedness under: (i) Facility G, a new 1.0 billion term loan facility further maturing in full on April 1, 2010; (ii) Facility H, a new 1.5 billion term loan facility maturing in full on September 1, 2012, of which $1.25 billion was denominated in U.S. dollars and then swapped into euros through a 7.5 year cross-currency swap; and (iii) Facility I, a new 500 million revolving credit facility maturing in full on April 1, 2010. In connection with this amendment, 167 million of Facility A, the existing revolving credit facility, was cancelled, reducing Facility A to a maximum amount of 500 million. The proceeds from Facilities G and H were used primarily to prepay all amounts outstanding under existing term loan Facilities B, C and E, to fund certain acquisitions and pay transaction fees. The aggregate availability of 1.0 billion under Facilities A and I can be used to fund acquisitions and for general corporate purposes. As a result of this amendment, the weighted average maturity of the UPC Broadband Bank Facility was extended from approximately 4 years to approximately 6 years, with no amortization payments required until 2010, and the weighted average interest margin on the UPC Broadband Bank Facility was reduced by approximately 0.25% per annum. The amendment also provided for additional flexibility on certain covenants and the funding of acquisitions.

On July 1, 2004, UPC Broadband France SAS, an indirect wholly owned subsidiary of UGC and the owner of UGC s French cable television operations, completed its acquisition of Suez-Lyonnaise Telecom SA, which we refer to as Noos, France s largest cable operator, from Suez SA, a French utility group, for cash and a 19.9% equity interest in UPC Broadband France.

On July 19, 2004, our investment in Senior Notes and Senior Discount Notes of Telewest Communications plc was converted into approximately 7.5% of the outstanding common stock of Telewest Global, Inc.

In August 2004, we issued 28.2 million shares of our Series A common stock and 1.2 million shares of our Series B common stock pursuant to a fully subscribed rights offering, resulting in gross proceeds to us of $739.4 million.

Also in August 2004, we, Sumitomo Corporation and Microsoft Corporation effectively converted a portion of our respective subordinated loans to Jupiter Telecommunications Co., Ltd., which we refer to as J-COM, into equity. Such conversions did not have a material impact on our, Sumitomo s or Microsoft s respective ownership interests in J-COM. In December 2004, J-COM repaid the balance of these subordinated shareholder loans in cash.

Subsequent to the spin off, our management and Board of Directors undertook a review of our assets and determined that it would be advisable to monetize or dispose of our financial assets and to consider disposing of other non-consolidated non-cash-flow producing assets if opportunities arose. Consistent with the foregoing, prior to December 31, 2004, we sold all of our shares of Telewest Global and 4.5 million shares of Class A common stock of News Corporation, Inc.

In October 2004, we also sold our 10% interest in Sky Multi-Country and entered into agreements to sell our 10% interest in each of Sky Brasil and Sky Mexico. Sky Multi-Country, Sky Brasil and Sky Mexico, which we refer to collectively as Sky Latin America, offer entertainment services via satellite through owned and affiliated distribution platforms in Latin America. The closing of the transfer of our interests in Sky Brasil and Sky Mexico are subject to receipt of regulatory approvals and other customary conditions.

Then, in November 2004, we entered into a put-call agreement with respect to our right and obligation to subscribe for newly issued shares of Cablevisión S.A., a cable television operator in Argentina, in the event that Cablevisión s pending restructuring under local law of its debt and other obligations is approved. Consummation of this transaction, which occurred on March 2, 2005, resulted in the transfer of our subscription right and obligation in consideration of a cash payment, 50% of which was paid as a down payment in November 2004. Separately, the counterparty to our total return debt swap with respect to certain bonds of Cablevisión, with our consent, entered into a participation agreement with a third party, which in January 2005 resulted in the termination of our liability under the total return debt swap and the return of our posted collateral.

On October 15, 2004, our indirect wholly owned subsidiary, Belgian Cable Holdings, entered into an agreement to restructure its investment in the debt of Cable Partners Europe, which we refer to as CPE, and one of its two indirect majority-owned subsidiaries, which we refer to as the InvestCos. In December 2004, two European subsidiaries of UGC acquired Belgian Cable Holdings from us for cash. Thereafter, Belgian Cable Holdings effected the debt restructuring by contributing cash and its investment in the debt of one of the InvestCos to Belgian Cable Investors, L.L.C., a wholly owned subsidiary of CPE, in exchange for 78.4% of the common equity and 100% of the preferred equity of Belgian Cable Investors. CPE owns the remaining 21.6% of the common equity of Belgian Cable Investors. Most of the proceeds of Belgian Cable Holdings investment was then distributed by Belgian Cable Investors to CPE and used by CPE to repurchase its debt held by Belgian Cable Holdings for a purchase price approximately equal to Belgian Cable Holdings cost of acquiring the CPE debt plus accrued interest. Belgian Cable Investors holds an indirect 14.1% interest in Telenet Group Holding N.V., Belgium s largest cable system operator in terms of number of subscribers.

In December 2004, a subsidiary of chellomedia BV, an indirect wholly owned subsidiary of UGC, entered into an agreement to sell its 28.7% interest in EWT Holding GmbH to the other investors in EWT Holding for cash. Chellomedia received 90% of the purchase price on January 31, 2005 and the remaining 10% is due and payable no later than June 30, 2005.

On December 7, 2004, we purchased 3.0 million shares of our Series A common stock from Comcast Corporation for cash.

During 2004, our subsidiary Liberty Japan MC, LLC acquired shares of the stock of Mediatti Communications, Inc., a Japanese broadband provider of cable and Internet access services, in a series of transactions resulting in its holding an aggregate 37.3% interest in Mediatti as of December 31, 2004. In December 2004, Sumitomo Corporation acquired a net 6.9% interest in Liberty Japan MC for a purchase price equal to the same percentage of our investment in Mediatti. Sumitomo has the option until February 2006 to increase its interest in Liberty Japan MC to up to 50%, at a purchase price equal to the greater of the then fair market value of the additional interests so acquired and our investment in such interests.

Pursuant to a contribution agreement between Sumitomo and us, on December 28, 2004, our approximate 45.45% equity interest in J-COM and an approximate 19.78% equity interest in J-COM owned by Sumitomo were combined in a holding company named LMI/ Sumisho Super Media, LLC, which we refer to as Super Media. Subject to certain conditions, Sumitomo has the obligation to contribute to Super Media substantially all of its remaining 12.25% equity interest in J-COM during 2005. On February 18, 2005, J-COM announced an initial public offering of its common shares in Japan. Under the terms of the operating agreement of Super Media, our casting or tie-breaking vote with respect to decisions of the management committee of Super Media became effective upon this announcement. As a result, we began accounting for Super Media and J-COM as consolidated subsidiaries effective as of January 1, 2005. If all of the J-COM shares offered for sale by J-COM in the initial public offering are sold (including pursuant to the underwriters over-allotment option), Super Media s equity interest in J-COM will be diluted to approximately 52.84%.

On January 17, 2005, chellomedia acquired an 87.5% interest in Zone Vision Networks Ltd. from its current shareholders. Zone Vision is a programming company that owns three pay television channels and represents over 30 international channels. The consideration for the transaction consisted of cash and 1.6 million shares of UGC s Class A common stock, which are subject to a five-year vesting period. As part of the transaction,

chellomedia will contribute to Zone Vision the 49% shareholding it already holds in Reality TV Ltd. and chellomedia s Club channel business.

On January 17, 2005, we entered into an agreement and plan of merger with UGC pursuant to which we each would merge with a separate wholly owned subsidiary of a new parent company named Liberty Global, Inc., which we have formed for purposes of the mergers. In the mergers, each outstanding share of our Series A common stock and Series B common stock would be exchanged for one share of the corresponding series of Liberty Global common stock. Stockholders of UGC (other than us and our wholly owned subsidiaries) may elect to receive for each share of UGC common stock owned either 0.2155 of a share of Liberty Global Series A common stock (plus cash instead of any fractional share interest) or $9.58 in cash. Cash elections will be subject to proration so that the aggregate cash consideration paid to UGC s stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC s public stockholders. Completion of the transactions is subject, among other conditions, to approval of both companies stockholders, including in the case of UGC, the affirmative vote of a majority of the voting power of the UGC shares not beneficially owned by us, Liberty, any of our respective subsidiaries or any of the executive officers or directors of us, Liberty or UGC.

On February 10, 2005, UPC Broadband Holding, an indirect wholly owned subsidiary of UGC, acquired 100% of the shares in Telemach d.o.o., a broadband communications provider in Slovenia for cash.

On February 25, 2005, J-COM acquired the respective interests of Sumitomo Corporation, Microsoft Corporation and us in Chofu Cable, Inc., a small Japanese broadband communications provider, for cash. As a result, J-COM acquired an approximate 92% equity interest in Chofu Cable.

* * * * *

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

- economic and business conditions and industry trends in the countries in which we operate;
- currency exchange risks;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- consumer acceptance of existing service offerings, including our newer digital video, voice and Internet access services;
- consumer acceptance of new technology, programming alternatives and broadband services that we may offer;
- our ability to manage rapid technological changes and grow our digital video, voice and Internet access services;
- the regulatory and competitive environment in the broadband communications and programming industries in the countries in which we, and the entities in which we have interests, operate;
- continued consolidation of the foreign broadband distribution industry;

uncertainties inherent in the development and integration of new business lines and business strategies;

- the expanded deployment of personal video recorders and the impact on television advertising revenue;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;
- future financial performance, including availability, terms and deployment of capital;
- the ability of suppliers and vendors to timely deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse outcomes from regulatory proceedings;
- government intervention that opens our broadband distribution networks to competitors;
- our ability to successfully negotiate rate increases with local authorities;
- changes in the nature of key strategic relationships with partners and joint venturers;
- uncertainties associated with our ability to comply with the internal control requirements of the Sarbanes-Oxley Act of 2002;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- spending on foreign television advertising; and
- threatened terrorist attacks and ongoing military action in the Middle East and other parts of the world.

You should be aware that the video, voice and Internet access services industries are changing rapidly, and, therefore, the forward-looking statements of expectations, plans and intent in this Annual Report are subject to a greater degree of risk than similar statements regarding certain other industries.

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

This Annual Report includes information concerning UnitedGlobalCom, Inc., which files reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information contained in this Annual Report concerning UGC has been derived from the reports and other information filed by it with the SEC. If you would like further information about UGC, the reports and other information it files with the SEC can be accessed on the Internet website maintained by the SEC at *www.sec.gov*. Those reports and other information are not incorporated by reference in this Annual Report.

(b) Financial Information About Operating Segments

Financial information about our reportable segments appears in note 20 to our consolidated financial statements included in Part II of this report.

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(c) Narrative Description of Business

Overview

Broadband Distribution

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

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The following table presents certain operating data, as of December 31, 2004, with respect to the broadband distribution systems of our subsidiaries in Europe, Japan and Latin America. For purposes of this presentation, we refer to Puerto Rico, the islands of the Caribbean and the countries of Central and South America collectively as Latin America. This table reflects 100% of the operational data applicable to each subsidiary regardless of our ownership percentage.

			Video(1)				Internet(1)		Telephony(1)	
	Homes Passed(2)	Two-way Homes Passed(3)	Basic Cable Subscribers(4)	Digital Cable Subscribers(5)	DTH Subscribers(6)	MMDS Subscribers(7)	Homes Serviceable(8)	Subscribers(9)	Homes Serviceable(10)	Subscriber
rope:										
C*										
estern rope	9,528,600	7,463,300	5,191,200	725,100		89,000	7,453,600	1,042,000	4,044,100	424,6
ntral and stern rope	4,552,200	1,739,800	2,618,100		245,100	32,200	1,733,100	178,500	415,600	68,9
al Europe	14,080,800	9,203,100	7,809,300	725,100	245,100	121,200	9,186,700	1,220,500	4,459,700	493,5
pan:										
OM**	6,287,800	6,276,200	1,482,600	232,000			6,276,200	708,600	5,799,200	726,5
al Japan	6,287,800	6,276,200	1,482,600	232,000			6,276,200	708,600	5,799,200	726,5
in nerica:										
C*										
TR obalCom	1,793,900	1,070,700	504,600		4,500	13,900	1,070,700	176,300	1,052,700	310,0
her	82,200	45,700	12,400			15,300	45,700	4,300		
erty olevision erto Rico	324,600	302,800	120,800	43,700			302,800	20,500	302,800	9,0
al Latin erica	2,200,700	1,419,200	637,800	43,700	4,500	29,200	1,419,200	201,100	1,355,500	319,0
al	22,569,300	16,898,500	9,929,700	1,000,800	249,600	150,400	16,882,100	2,130,200	11,614,400	1,539,0

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* Excludes systems owned by affiliates that were not consolidated with UGC for financial reporting purposes as of December 31, 2004 or that were acquired by UGC after December 31, 2004.

** Excludes systems owned by affiliates that were not consolidated with J-COM for financial reporting purposes as of December 31, 2004 or that were acquired by J-COM after December 31, 2004. Also excludes households to which J-COM provides only retransmission services of terrestrial television signals.

(1) In some cases, non-paying subscribers are counted by UGC as subscribers during their free promotional service period. Some of these subscribers choose to disconnect after their free service period. The number of non-paying subscribers at December 31, 2004 was immaterial.

(2) Homes Passed are homes that can be connected to our networks without further extending the distribution plant, except for DTH and MMDS homes. With respect to DTH, we do not count homes passed. With respect to MMDS, one home passed is equal to one MMDS subscriber.

(3) Two-way Homes Passed are homes passed by our networks where customers can request and receive the installation of a two-way addressable set-top converter, cable modem, transceiver and/or voice port which, in most cases, allows for the provision of video and Internet services and, in some cases, telephony services.

(4) Basic Cable Subscriber is comprised of basic cable video customers (both analog and digital) that generally are counted on a per connection basis. Except in the case of UGC, residential multiple dwelling units with a discounted pricing structure are counted on an equivalent bulk unit (EBU) basis. Commercial contracts such as hotels and hospitals are counted by all our subsidiaries on an EBU basis. EBU is calculated by dividing the bulk price charged to accounts in an area by the prevalent price charged to non-bulk residential customers in that market for the comparable tier of service. UGC also has lifeline customers (approximately 1.34 million at December 31, 2004) that are counted on a per connection basis, representing the least expensive regulated tier of basic cable service, with only a few channels.

(5) Digital Cable Subscriber is a customer with one or more digital converter boxes that receives our digital video service. Each Digital Cable Subscriber is included in the Basic Cable Subscriber column of the above table whether such customer receives only our digital video service or both analog and digital video services.

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

(7) MMDS Subscriber is a home or commercial unit that receives our video programming via a multipoint microwave (wireless) distribution system.

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

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

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

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

Programming Services

We own programming networks that provide video programming channels to multi-channel distribution systems owned by us and by third parties. We also represent programming networks owned by others. Our programming networks distribute their services through a number of distribution technologies, principally cable television and DTH. Programming services may be delivered to subscribers as part of a video distributor s basic package of programming services for a fixed monthly fee, or may be delivered as a premium programming service for an additional monthly charge or on a pay-per-view basis. Whether a

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programming service is on a basic or premium tier, the programmer generally enters into separate affiliation agreements, providing for terms of one or more years, with those distributors that agree to carry the service. Basic programming services derive their revenue from per-subscriber license fees received from distributors and the sale of advertising time on their networks or, in the case of shopping channels, retail sales. Premium services generally do not sell advertising and primarily generate their revenue from subscriber fees. Programming providers generally have two sources of content: (1) rights to productions that are purchased from various independent producers and distributors, and (2) original productions filmed for the programming provider by internal personnel or contractors. We operate our programming businesses in Europe principally through the chellomedia division of UGC; in Japan principally through our affiliate Jupiter Programming Co., Ltd., which we refer to as JPC; and in Latin America principally through our subsidiary, Pramer S.C.A.

Operations

Europe UnitedGlobalCom, Inc.

Our European operations are conducted primarily through UnitedGlobalCom, Inc. At December 31, 2004, we owned an approximate 53.6% common equity interest, representing an approximate 91.0% voting interest, in UGC. UGC is one of the largest broadband communications providers, in terms of aggregate number of subscribers and homes passed, outside the United States. UGC provides video distribution services and/or Internet access and telephony services in 16 countries worldwide.

UGC s European operations are conducted through its wholly owned subsidiary, UGC Europe, Inc., which provides services in 13 countries in Europe. UGC Europe s operations are currently organized into two principal divisions: UPC Broadband and chellomedia. Through its UPC Broadband division, UGC Europe provides video, high-speed Internet access and telephony services over its networks and operates the largest cable network in each of The Netherlands, France, Austria, Poland, Hungary, Czech Republic, Slovak Republic and Slovenia and the second largest cable network in Norway, in each case in terms of number of subscribers. UGC Europe s high-speed Internet access service is provided over the UPC Broadband network infrastructure generally under the brand name chello. Depending on the capacity of the particular network, UGC Europe may provide up to seven tiers of high-speed Internet access. For information concerning the chellomedia division, see chellomedia and Other.

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

The Netherlands

UGC Europe s networks in The Netherlands, which we refer to as UGC-Netherlands, passed approximately 2.6 million homes and had approximately 2.3 million basic cable subscribers, 397,400 Internet subscribers and 182,100 telephony subscribers as of December 31, 2004. Over 30% of Dutch households receive at least analog cable service from UGC-Netherlands. UGC-Netherlands subscribers are located in six regional clusters, including the major cities of Amsterdam and Rotterdam. Its networks are approximately 95% upgraded to two-way capability, with approximately 94% of its basic cable subscribers served by a network with a bandwidth of at least 860 MHz.

UGC-Netherlands provides analog cable services to approximately 87% of its homes passed. Approximately 82% of UGC-Netherlands homes passed are capable of receiving digital cable service. UGC-Netherlands offers its digital cable subscribers a basic package of 58 channels with an option to subscribe for up to 15 additional general entertainment, movie, sports, music and ethnic channels and an electronic program guide. UGC-Netherlands digital cable service also offers 56 channels of near-video-on-demand, or NVOD , services and interactive services, including television-based email, to approximately 57% of its homes passed.

UGC-Netherlands offers seven tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 8 Mbps. Approximately 17% of its basic cable subscribers also receive its Internet access service, representing approximately 100% of its Internet subscribers.

Multi-feature telephony services are available from UGC-Netherlands to approximately 86% of its homes passed. Approximately 8% of its basic cable subscribers also receive its telephony services, representing approximately 100% of its telephony subscribers. In 2004, UGC-Netherlands began offering telephony services to its two-way homes passed by applying Voice-over-Internet Protocol or VoIP.

In early 2004, UGC-Netherlands launched self-install for all of its Internet access services, allowing subscribers to install the technology themselves and save money on the installation fee. UGC-Netherlands also launched self-install for its digital cable services in June 2004. Approximately 50% of its new Internet subscribers have chosen to self-install their new service, and approximately 30% of its new digital subscribers have chosen to self-install their new service.

France

UGC Europe s networks in France (including Noos), which we refer to as UGC-France, passed approximately 4.6 million homes and had 1.5 million basic cable subscribers, 247,100 Internet subscribers and 66,600 telephony subscribers as of December 31, 2004. Its major operations are located in Paris and its suburbs including the Marne la Vallee area east of Paris, Strasbourg, Orleans, Le Mans, the suburbs of Lyon, the southeast region, and other operations spread throughout France. Its network is approximately 72% upgraded to two-way capability, with approximately 90% of its basic cable subscribers served by a network with a bandwidth of at least 750 MHz.

In 2004, UGC-France extended the reach of its digital cable platform, which is now available to approximately 90% of its homes passed. The digital platform offers a number of options in terms of packages from 52 channels for the entry-level tier to more than 100 channels for the premium tier. Programming includes series, general entertainment, youth, sports, news, documentary, music, lifestyle and foreign channels. With all tiers, UGC-France offers a number of movie premium packages, a pay-per-view service, numerous a la carte channels and several Canal+ channels. UGC-France intends to migrate most of its analog cable subscribers to this new digital platform.

UGC-France offers three tiers of chello and Noos brand high-speed Internet access service with download speeds ranging from 512 Kbps to 10 Mbps. Approximately 12% of its basic cable subscribers also receive Internet service, representing approximately 75% of its Internet subscribers.

Multi-feature telephony services are available from UGC-France to approximately 15% of its homes passed.

Suez SA owns a 19.9% equity interest in UGC-France. Subject to the terms of a call option, the indirect wholly owned subsidiary of UGC that holds the remaining 80.1% equity interest in UGC-France, which we refer to as UGC France Holdco, has the right through June 30, 2005 to purchase from Suez all of its equity interest in UGC-France for 85,000,000, subject to adjustment, plus interest. The purchase price may be paid in cash, shares of UGC s Class A common stock or shares of our Series A common stock. Subject to the terms of a put option, Suez may require UGC France Holdco to purchase Suez s equity interest in UGC-France at specified times prior to or after July 1, 2007, July 1, 2008 or July 1, 2009 for the then fair market value of such equity interest or assist Suez in obtaining an offer to purchase its equity interest in UGC-France. UGC France Holdco also has the option to purchase Suez s equity interest in UGC-France during specified periods shortly after July 1, 2007, July 1, 2008 and July 1, 2009 at the then fair market value of such equity interest, payable in cash or shares of our or UGC s common stock.

Austria

UGC Europe s networks in Austria, which we refer to as UGC-Austria, passed 946,900 homes and had 501,400 basic cable subscribers, 242,500 Internet subscribers and 152,500 telephony subscribers as of December 31. 2004. UGC-Austria s subscribers are located in regional clusters encompassing the capital city of Vienna, two other regional capitals and two smaller cities. Each of the cities in which it operates owns, directly or indirectly, 5% of the local operating company of UGC-Austria. UGC-Austria s network is almost entirely upgraded to two-way capability, with approximately 97% of its basic cable subscribers served by a network with a bandwidth of at least 750 MHz.

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UGC-Austria provides a single offering to its analog cable subscribers that consists of 34 channels, mostly in the German language. UGC-Austria s digital platform offers more than 100 basic and premium TV channels, plus NVOD, interactive services, television-based e-mail and an electronic program guide. UGC-Austria s premium content includes first run movies and specific ethnic offerings, including Serb and Turkish channels.

UGC-Austria offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 2.6 Mbps. UGC-Austria s high-speed Internet access is available in all of the cities in its operating area. Approximately 37% of its basic cable subscribers also receive its Internet access service, representing approximately 76% of its Internet subscribers.

Multi-feature telephony services are available from UGC-Austria to approximately 96% of its homes passed. UGC-Austria offers basic dial tone service as well as value-added services. UGC-Austria also offers a bundled product of fixed line and mobile telephony services in cooperation with the third largest mobile phone operator in Austria under the brand Take Two. More than 100,000 of its telephony subscribers subscribe to this product. Approximately 22% of UGC-Austria s basic cable subscribers also receive its telephony service, representing approximately 72% of its telephony subscribers.

Norway

UGC Europe s networks in Norway, which we refer to as UGC-Norway, passed 486,600 homes and had 341,000 basic cable subscribers, 48,500 Internet subscribers and 22,900 telephony subscribers as of December 31, 2004. Its main network is located in Oslo and its other systems are located primarily in the southeast and along Norway s southwestern coast. UGC-Norway s networks are approximately 50% upgraded to two-way capability, with approximately 30% of its basic cable subscribers served by a network with a bandwidth of at least 860 MHz. Digital cable services are offered to approximately 39% of UGC-Norway s homes passed.

UGC-Norway has a basic analog cable package with 15 channels and a plus-package with 23 channels. UGC-Norway s highest analog tier, the total package, includes the plus-package and 12 additional channels. Customers can also subscribe to premium channels, such as movie, sports and ethnic channels. Approximately 60% of UGC-Norway s basic cable subscribers consist of multi-dwelling units, or MDUs , with a discounted pricing structure. UGC-Norway s basic digital cable package consists of 29 channels. Its upper-level digital package includes an additional 21 channels. Subscribers to the basic digital cable package can subscribe to channels from the upper-level digital package for an additional fee. Different movie, sports, entertainment and ethnic channels may be selected from an a la carte menu for a per-channel fee. To complement its digital offering, UGC-Norway launched 48 channels of NVOD service in 2004.

UGC-Norway offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 4 Mbps. Approximately 14% of its basic cable subscribers also receive its Internet service, representing approximately 100% of its Internet subscribers.

Multi-feature telephony services are available from UGC-Norway to approximately 31% of its homes passed. Approximately 7% of its basic cable subscribers also receive telephony service, representing approximately 100% of its telephony subscribers.

Sweden

UGC Europe s network in Sweden, which we refer to as UGC-Sweden, passed 421,600 homes and had 292,300 basic cable subscribers and 76,000 Internet subscribers as of December 31, 2004. It operates in the greater Stockholm area on leased fiber from Stokab AB, a city controlled entity with exclusive rights to lay cable ducts for communications or broadcast services in the city of Stockholm. These lease terms vary from 10 to 25 years, and expire beginning in 2012 through 2018. Its network is approximately 67% upgraded to two-way capability, with all of its basic cable subscribers served by a network with a bandwidth of at least 550 MHz.

UGC-Sweden provides all of its basic cable subscribers with a lifeline service consisting of four must-carry channels. In addition to this lifeline service, UGC-Sweden offers an analog cable package with 12 channels and a digital cable package with up to 80 channels. Its program offerings include domestic, foreign, sport and premium movie channels, as well as digital event channels such as seasonal sport and real life entertainment events. Approximately 39% of the homes served by UGC-Sweden s network subscribe to the lifeline analog cable service only. Approximately 13% of its basic cable subscribers are digital cable subscribers. To complement its digital offering, UGC-Sweden launched 24 channels of NVOD service in 2004.

UGC-Sweden offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 128 Kbps to 8 Mbps. Approximately 26% of its basic cable subscribers subscribe to its Internet service, representing approximately 100% of its Internet subscribers.

Ireland

UGC Europe s network in Ireland, which we refer to as UGC-Ireland, or Chorus, passed 317,300 homes and had 112,900 basic cable subscribers, 89,000 MMDS subscribers, 600 Internet subscribers and 500 telephony subscribers as of December 31, 2004. UGC-Ireland is Ireland s largest cable and MMDS video service provider outside of Dublin, based on customers served. UGC-Ireland also distributes four Irish channels and produces a local sports channel.

Belgium

UGC Europe s network in Belgium, which we refer to as UGC-Belgium, passed 155,500 homes and had 134,900 basic cable subscribers and 29,900 Internet subscribers as of December 31, 2004. Its operations are located in certain areas of Leuven and Brussels, the capital city of Belgium. UGC-Belgium s network is fully upgraded to two-way capability, with all of its basic cable subscribers served by a network with a bandwidth of 860 MHz.

UGC-Belgium s analog cable service, consisting of all Belgium terrestrial channels, regional channels and selected European channels, offers 41 channels in Brussels and 39 channels in Leuven. In both regions, UGC-Belgium offers an expanded analog cable package, including a starters pack of three channels that can be upgraded to 15 channels in Leuven and 17 channels in Brussels. This programming generally includes a selection of European and United States thematic satellite channels, including sports, kids, nature, movies and general entertainment channels. UGC-Belgium also distributes three premium channels that are provided by Canal+, two in Brussels and one in Leuven.

UGC-Belgium offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 16 Mbps. Approximately 12% of its basic cable subscribers also receive Internet access service, representing approximately 56% of its Internet subscribers.

Through its indirect wholly owned subsidiary, Belgian Cable Holding, UGC Europe holds 78.4% of the common equity and 100% of the preferred equity of Belgian Cable Investors, L.L.C. Cable Partners Europe LLC, which we refer to as CPE, owns the remaining 21.6% of the common equity of Belgian Cable Investors. Belgian Cable Investors in turn holds an indirect 14.1% economic interest in Telenet Group Holding NV, and certain call options, expiring in 2007 and 2009, to acquire 11.6% and 17.6% respectively, of the outstanding equity of Telenet from existing shareholders. Belgian Cable Investors indirect 14.1% interest in Telenet results from its majority ownership of two entities, which we refer to as the InvestCos, that hold in the aggregate 18.99% of the common stock of Telenet, and a shareholders agreement among Belgian Cable Investors and three unaffiliated investors in the InvestCos that governs the voting and disposition of 21.36% of the common stock of Telenet, including the stock held by the InvestCos. Telenet is Belgium s largest cable system operator in terms of number of subscribers.

Pursuant to the agreement with CPE governing Belgian Cable Investors, CPE has the right to require Belgian Cable Holdings to purchase all of CPE s interest in Belgian Cable Investors for the appraised fair value of such interest during the first 30 days of every six-month period beginning in December 2007. Belgian Cable Holdings has the corresponding right to require CPE to sell all of its interest in Belgian Cable Investors to

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Belgian Cable Holdings for appraised fair value during the first 30 days of every six-month period following December 2009.

Poland

UGC Europe s networks in Poland, which we refer to as UGC-Poland, passed approximately 1.9 million homes and had approximately 1 million basic cable subscribers and 53,400 Internet subscribers as of December 31, 2004. UGC-Poland s subscribers are located in regional clusters encompassing eight of the ten largest cities in Poland, including Warsaw and Katowice. Approximately 30% of its networks are upgraded to two-way capability, with approximately 96% of its basic cable subscribers served by a network with a bandwidth of at least 550 MHz. UGC-Poland continues to upgrade portions of its network that have bandwidths below 550 MHz to bandwidths of at least 860 MHz.

UGC-Poland offers analog cable subscribers three packages of cable television service. Its lowest tier, the broadcast package, includes 4 to 12 channels and the intermediate package includes 13 to 22 channels. The higher tier, the full package, includes the broadcast package plus up to 30 additional channels with such themes as sports, kids, science/educational, news, film and music. For an additional monthly charge, UGC-Poland offers two premium television services, the HBO Poland service and Canal+ Multiplex, a Polish-language premium package of three movie, sport and general entertainment channels.

UGC-Poland offers three different tiers of chello brand high-speed Internet access service in portions of its network with download speeds ranging from 512 Kbps to 6 Mbps. UGC-Poland is currently expanding its Internet ready network in Warsaw, Krakow, Gdansk and Katowice and began providing Internet access services in Szczecin and Lublin in the second quarter of 2004. Approximately 5% of its basic cable subscribers also receive its Internet service, representing approximately 88% of its Internet subscribers.

Hungary

UGC Europe s networks in Hungary, which we refer to as UGC-Hungary, passed approximately 1 million homes and had 720,900 basic cable subscribers, 140,400 DTH subscribers, 73,200 Internet subscribers and 68,900 telephony subscribers, as of December 31, 2004. Approximately 67% of its networks are upgraded to two-way capability, with 50% of its basic cable subscribers served by a network with a bandwidth of at least 750 MHz.

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

UGC-Hungary offers three tiers of chello brand high-speed Internet access service with download speeds ranging from 512 Kbps to 3 Mbps. UGC-Hungary offers these broadband Internet services to 69,200 subscribers in fourteen cities, including Budapest. It also had 4,000 asymmetric digital subscriber line, or ADSL , subscribers at December 31, 2004. Approximately 6% of its basic cable subscribers also receive its Internet service, representing approximately 55% of its Internet subscribers.

Monor Telefon Tarsasag Rt., one of UGC-Hungary s operating companies, offers traditional switched telephony services over a twisted copper pair network in the southeast part of Pest County. In 2004, UGC-Hungary began offering VoIP telephony services over its cable network in Budapest. As of December 31, 2004, UGC-Hungary had 68,900 telephony subscribers.

Czech Republic

UGC Europe s network in the Czech Republic, which we refer to as UGC-Czech, passed 729,000 homes and had 295,700 basic cable subscribers, 90,100 DTH subscribers and 42,400 Internet subscribers as of December 31, 2004. Its operations are located in more than 80 cities and towns in the Czech Republic, including Prague and Brno, the two largest cities in the country. Approximately 44% of its networks are upgraded to two-way capability, with 40% of its basic cable subscribers served by a network with a bandwidth

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of at least 750 MHz. UGC-Czech offers two tiers of analog cable programming services, with up to 31 channels, and two premium channels.

UGC-Czech offers four tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 6 Mbps. Approximately 9% of its basic cable subscribers also receive its Internet service, representing approximately 64% of its Internet subscribers.

Romania

UGC Europe s networks in Romania, which we refer to as UGC-Romania, passed 518,700 homes and had 357,000 basic cable subscribers, as of December 31, 2004. UGC-Romania s systems served 34 cities in Romania with 75% of its subscriber base in six cities: Timisoara, Cluj, Ploiesti, Focsani, Bacau and Botosani. UGC-Romania is currently test marketing, on a limited basis, an Internet access product in two of its main systems. Approximately 1% of its networks are upgraded to two-way capability, with 75% of its basic cable subscribers served by a network with a bandwidth of at least 550 MHz. UGC-Romania continues to upgrade its medium size systems to 550 MHz.

UGC-Romania offers analog cable service with 24 to 36 channels in all of its cities, which include Romanian terrestrial broadcast channels, European satellite programming and regional local programming. Three extra basic packages of 6 to 18 channels each are offered in Timisoara, Ploiesti, Cluj and Bacau. Premium Pay TV (HBO Romania) is offered in 13 cities.

Slovak Republic

UGC Europe s network in the Slovak Republic, which we refer to as UGC-Slovak, passed 413,200 homes and had 250,300 basic cable subscribers, 14,600 DTH subscribers, 32,200 MMDS subscribers and 9,200 Internet subscribers as of December 31, 2004. Approximately 41% of its networks are upgraded to two-way capability, with 25% of its basic cable subscribers served by a network with a bandwidth of at least 750 MHz. In some areas like Bratislava, the capital city, its network is 98% upgraded to two-way capability.

UGC-Slovak offers two tiers of analog cable service and three premium services. Its lower-tier, the lifeline package, includes 4 to 9 channels. UGC-Slovak s most popular tier, the basic package, includes 16 to 42 channels that generally offer all Slovak terrestrial, cable and local channels, selected European satellite programming and other third-party programming. For an additional monthly charge, UGC-Slovak offers three premium services HBO, Private Gold and the UPC Komfort package consisting of six thematic third-party channels.

In Bratislava, UGC-Slovak offers five tiers of chello brand high-speed Internet access service with download speeds ranging from 256 Kbps to 4 Mbps. Approximately 3% of its basic cable subscribers also receive Internet access service, representing approximately 85% of its Internet subscribers.

Slovenia

UGC Europe s network in Slovenia, acquired in February 2005, which we refer to as UGC-Slovenia, is the largest broadband communications provider in Slovenia in terms of number of subscribers, with over 100,000 basic cable subscribers and 10,000 Internet subscribers at December 31, 2004.

UGC-Slovenia offers analog cable service and one premium movie service. UGC-Slovenia s most popular tier, the basic package, includes on average 50 video and 20 radio channels and generally offers all Slovenian terrestrial, cable and local channels, selected European satellite programming and other third-party programming. For an additional monthly charge, UGC-Slovenia offers one premium movie service.

UGC-Slovenia offers five tiers of high-speed Internet access service with download speeds ranging from 128 Kbps to 2 Mbps.

chellomedia and Other

UGC Europe s chellomedia division provides interactive digital products and services, produces and markets thematic channels, operates UGC Europe s digital media center, operates a competitive local exchange carrier business under the brand name Priority Telecom and owns or manages UGC s investments in various businesses in Europe. Below is a description of the operations of the chellomedia division:

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

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

Pay Television. UPCtv, a wholly owned subsidiary of UGC Europe, produces and markets its own pay television products, currently consisting of three thematic channels. The channels target the following genres: extreme sports and lifestyles; women s information and entertainment; and real life documentaries. All three channels originate from UGC Europe s digital media center, or DMC, located in Amsterdam. The DMC is a technologically advanced production facility that services UPCtv and third-party clients with channel origination, post-production and satellite and fiber transmission. The DMC delivers high-quality, customized programming by integrating different video elements, languages (either in dubbed or sub-titled form) and special effects, then transmits the final product to various customers in numerous countries through affiliated and unaffiliated cable systems and DTH platforms.

Priority Telecom. Priority Telecom is a facilities-based business telecommunications provider that provides voice services, high-speed Internet access, private data networks and customized network services to over 7,000 business customers primarily in its core metropolitan markets in The Netherlands, Austria and Norway. UGC Europe owns an approximate 72% economic interest in Priority Telecom.

Investments. Chellomedia is an investor in branded equity ventures for the development of country-specific programming, including Iberian Programming Services, Xtra Music, MTV Networks Polska, Fox Kids Poland and Sports 1. In January 2005, chellomedia acquired an 87.5% interest in Zone Vision Networks Ltd. Zone Vision owns and operates three thematic programming channels, *Reality TV, Europa Europa* and *Romantica,* which are broadcast in over 125 countries in 18 languages, and represents over 30 international programming channels. Zone Vision s minority shareholders have the right to put 60% of their 12.5% shareholding to chellomedia on the third anniversary, and 100% of their shareholding on the fifth anniversary, of completion of the transaction. Chellomedia has corresponding call rights. The price payable upon exercise of the put or call will be the fair market value of the shareholdings purchased.

Chellomedia also owns or manages UGC s minority interests in other European businesses. These include a 25% interest in PrimaCom AG, which owns and operates a cable television and broadband network in Germany and The Netherlands; a 50% interest in Melita Cable PLC, the only cable television and broadband network in Malta; a 25% interest in Telewizyjna Korporacja Partycypacyjna

S.A., a DTH programming platform in Poland; and the recently acquired indirect investment in Telenet Group Holding NV through Belgian Cable Investors.

Standstill Agreement with UGC.

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

Europe Other

We also own approximately 27% of the outstanding shares of The Wireless Group plc, which represents an approximate 22% economic interest. The Wireless Group is a commercial radio group in the United Kingdom that operates talkSPORT, a nationwide commercial radio station dedicated to sports, in addition to local and regional stations in North West England, South Wales and Scotland.

UGC owns an approximate 19% equity interest in SBS Broadcasting S.A., a European commercial television and radio broadcasting company.

Japan

Our Japanese operations are conducted primarily through LMI/ Sumisho Super Media, LLC and its subsidiary Jupiter Telecommunications Co., Ltd., and through Jupiter Programming Co., Ltd. As of December 31, 2004, we owned a 69.68% ownership interest in Super Media and Super Media owned a 65.23% ownership interest in J-COM. As a result of a change in governance of Super Media that occurred on February 18, 2005, we began accounting for Super Media and J-COM as consolidated subsidiaries, effective as of January 1, 2005. As of December 31, 2004, we owned a 50% ownership interest in our affiliate JPC.

Jupiter Telecommunications Co., Ltd.

J-COM is a leading broadband provider of bundled entertainment, data and communication services in Japan. J-COM is currently the largest multiple-system operator, or MSO , in Japan, as measured by the total number of homes passed and customers. J-COM operates its broadband networks through 19 managed local cable companies, which J-COM refers to as its managed franchises, 16 of which were consolidated subsidiaries as of December 31, 2004. J-COM owned a 45% equity interest and a 50% equity interest in two of its three unconsolidated managed franchises and had no equity interest in the remaining managed franchise, Chofu Cable, Inc., as of December 31, 2004. On February 25, 2005, J-COM acquired an aggregate 92% ownership interest in Chofu Cable, including an approximate 31% ownership interest acquired from us. As of December 31, 2004, J-COM s three unconsolidated managed franchises (including Chofu Cable) served approximately 139,800 basic cable subscribers, 52,800 Internet subscribers and 46,500 telephony subscribers.

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

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

J-COM offers analog and digital cable services in all of its managed franchises. J-COM s basic analog service consists of approximately 47 channels of cable programming, not including premium services. A typical channel line-up includes popular channels in the Japanese market such as *Movie Plus,* a top Japanese movie channel, the *Shop Channel,* a home-shopping network, *J Sports 1, 2 and 3,* three popular sports channels, the *Discovery Channel, the Golf Network,* the *Disney Channel* and *Animal Planet,* in addition to retransmission of analog terrestrial and satellite television broadcasts. J-COM s basic digital service currently includes approximately 59 channels of cable programming, not including audio and data channels and premium services. The channel line-up for the basic digital service is generally similar to the channel line-up for the basic analog service, but digital broadcasts can be offered in high-definition television format. For an additional fee, digital cable subscribers may also receive up to 9 pay-per-view channels not available to J-COM s analog cable subscribers. J-COM also offers both its basic analog and digital subscribers optional subscriptions for an additional fee to premium channels, including movies, sports, horseracing and other special entertainment programming, either individually or in packages. J-COM offers package discounts to customers who subscribe to bundles of J-COM services. In addition to the services offered to its cable television subscribers, J-COM also provides terrestrial broadcast retransmission services to approximately 3.0 million additional households in its managed franchises as of December 31, 2004.

J-COM offers high-speed Internet access in all of its managed franchises through its wholly owned subsidiary, @NetHome Co., Ltd, and through its affiliate, Kansai Multimedia Services. J-COM holds a 25.8% interest in Kansai Multimedia, which provides high-speed Internet access in the Kansai region of Japan. These Internet access services offer downstream speeds of either 8 Mbps or 30 Mbps. At December 31, 2004, approximately 37% of the basic cable subscribers in J-COM s consolidated managed franchises also received Internet service, representing approximately 77% of the Internet subscribers in such franchises.

J-COM currently offers telephony services over its own network in 14 of its consolidated franchise areas. In these franchise areas, J-COM s headend facilities contain equipment that routes calls from the local network to J-COM s telephony switches, which in turn transmit voice signals and other information over the network. J-COM currently provides a single line to the majority of its telephony customers, most of whom are residential customers. J-COM charges its telephony subscribers a flat fee for basic telephony service (together with charges for calls made) and offers additional premium services, including call-waiting, call-forwarding, caller identification and three way calling, for a fee. At December 31, 2004, approximately 38% of the basic cable subscribers in J-COM s consolidated managed franchises also received telephony service, representing approximately 78% of the telephony subscribers in such franchises. In February 2005, J-COM started a trial telephony service using VoIP technology in its Sapporo franchise.

In addition to its 19 managed franchises, J-COM owns non-controlling equity interests, between 5.5% and 20.4%, in three cable franchises and an MSO that are operated and managed by third-party franchise operators.

J-COM sources its programming through multiple suppliers including its affiliate, JPC. J-COM s relationship with JPC enables the two companies to work together to identify and bring key programming genres to the Japanese market and to expedite the development of quality programming services. J-COM and JPC each currently owns a 50% interest in Jupiter VOD Co., Ltd., a joint venture formed in 2004 to obtain video-on-demand, or VOD , programming content to offer VOD services to J-COM franchises. J-COM began offering VOD services to its digital customers on a trial basis in 2004 and anticipates rolling-out VOD service in all of its franchises in 2005. Because J-COM is usually a programmer s largest cable customer in Japan, J-COM is generally able to negotiate favorable terms with its programmers.

Our interest in J-COM is currently held through Super Media, an entity that is owned 69.68% by us and 30.32% by Sumitomo Corporation. Pursuant to a contribution agreement between Sumitomo and us, on December 28, 2004, our 45.45% ownership interest in J-COM and a majority of Sumitomo s 32% ownership interest in J-COM were combined in Super Media. Prior to the contribution agreement closing, Super Media was our wholly owned subsidiary and owned a portion of our ownership interest in J-COM. At closing of the

contribution agreement, our remaining ownership interest in J-COM owned by four of our other subsidiaries and a 19.78% ownership interest in J-COM owned by Sumitomo were contributed to Super Media, bringing Super Media s total ownership interest in J-COM to 65.23% as of the contribution closing date. Subject to certain conditions, Sumitomo has the obligation to contribute substantially all of its remaining 12.25% ownership interest in J-COM to Super Media during 2005. Also, Sumitomo and we are generally required to contribute to Super Media any additional shares of J-COM that either of us acquires and to permit the other party to participate in any additional acquisition of J-COM shares during the term of Super Media.

Our interest in Super Media is held through five separate corporations, four of which are wholly owned. Several individuals, including two of our executive officers and one of our directors, own common stock representing an aggregate of 20% of the common equity in the fifth corporation, which owns an approximate 5.4% interest in J-COM through its ownership in Super Media.

Super Media is managed by a management committee consisting of two members, one appointed by us and one appointed by Sumitomo. Effective upon J-COM s announcement on February 18, 2005 of an initial public offering of its common shares in Japan, the management committee member appointed by us has a casting or tie-breaking vote with respect to any management committee decision that we and Sumitomo are unable to agree on (with the exception of the terms of any initial public offering of J-COM shares), which casting vote will remain in effect for the term of Super Media. Certain decisions with respect to Super Media require the consent of both members rather than the management committee. These include a decision to engage in any business other than holding J-COM shares, sell J-COM shares, issue additional units in Super Media, make in-kind distributions or dissolve Super Media, in each case other than as contemplated by the Super Media operating agreement.

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

Our other primary partner in J-COM is Microsoft Corporation, which held a 19.5% beneficial ownership interest in J-COM as of December 31, 2004. Super Media has succeeded to all of our rights and substantially all of Sumitomo s rights under the current J-COM stockholders agreement with Microsoft, which agreement continues in effect until the earlier to occur of an initial public offering of J-COM shares or February 12, 2008. Pursuant to that agreement, each of Super Media, Sumitomo and Microsoft have granted to the other a right of first offer with respect to any transfer of our respective interests in J-COM to a third party. Microsoft also has tag-along rights with respect to certain sales of J-COM stock by Super Media, and Super Media has drag-along rights as to Microsoft with respect to certain sales of its J-COM stock. Super Media is also entitled to certain preemptive rights with respect to any new issuance of J-COM securities.

While Super Media effectively has the ability to elect J-COM s entire board, Super Media, Sumitomo and Microsoft have agreed, pursuant to the J-COM stockholders agreement described above, to vote their respective shares in favor of the election to J-COM s board of two non-executive directors designated by Microsoft. Microsoft also has the right to challenge certain types of transactions and to require review by an independent advisor based on specified criteria. Pursuant to the Super Media Operating Agreement, Super Media is required to vote its J-COM shares in favor of the election to J-COM s board of three non-executive directors designated by Sumitomo and three non-executive directors designated by us.

Jupiter Programming Co., Ltd.

JPC is a joint venture between Sumitomo and us that primarily develops, manages and distributes pay television services in Japan on a platform-neutral basis through various distribution infrastructures, principally cable and DTH service providers. As of December 31, 2004, JPC owned five channels through wholly or majority-owned subsidiaries and had investments ranging from approximately 10% to 50% in eleven additional channels. JPC s majority owned channels are a movie channel (*Movie Plus*), a golf channel (*Golf Network*), a shopping channel (*Shop Channel,* in which JPC has a 70% interest and Home Shopping Network has a 30%

interest), a women s entertainment channel (*LaLa TV*), and a video game information channel (*Channel BB*). Channels in which JPC holds investments include three sports channels owned by J Sports Broadcasting Corporation, a 43% owned joint venture with News Television B.V., Sony Broadcast Media Co. Ltd, Fuji Television Network, Inc. and SOFTBANK Broadmedia Corporation; *Animal Planet Japan,* a one-third owned joint venture with Discovery and BBC Worldwide; *Discovery Channel Japan,* a 50% owned joint venture with Discovery; and *AXN Japan,* a 35% owned joint venture with Sony. JPC provides affiliate sales services and in some cases advertising sales and other services to channels in which it has an investment for a fee.

The market for multi-channel television services in Japan is highly complex with multiple cable systems and direct-to-home satellite platforms. Cable systems in Japan served approximately 17.0 million homes at December 31, 2004. A large percentage of these homes, however, are served by systems (referred to as compensation systems) whose service principally consists of retransmitting free TV services to homes whose reception of such broadcast signals has been blocked. Higher capacity systems and larger cable systems that offer a full complement of cable and broadcast channels, of which J-COM is the largest in terms of subscribers, currently serve approximately 5.4 million households. The majority of channels in which JPC holds an interest are marketed as basic television services to cable system operators, with distribution at December 31**,** 2004 ranging from approximately 14.4 million homes for *Shop Channel* (which is carried in many compensation systems and on VHF as well as in multi-channel cable systems) to approximately 1.9 million homes for more recently launched channels, such as *Animal Planet Japan. Channel BB,* which was acquired by JPC in December 2004, has negligible cable distribution.

Each of the channels in which JPC has an interest is also currently offered on SkyPerfecTV1, a digital satellite platform that delivers approximately 180 channels a la carte and in an array of basic and premium packages, from two satellites operated by JSAT Corporation. Each of the channels, except for Channel BB, is also offered on SkyPerfecTV2, another satellite platform in Japan, which delivers a significantly smaller number of channels. Under Japan s complex regulatory scheme for satellite broadcasting, a person engaged in the business of broadcasting programming must obtain a broadcast license that is perpetual, although subject to revocation by the relevant governmental agency, and then lease from a satellite operator the bandwidth capacity on satellites necessary to transmit the programming to cable and other distributors and direct-to-home satellite subscribers. In the case of distribution of JPC s 33% or greater owned channels on SkyPerfecTV1, these licenses and satellite capacity leases are held through its subsidiary, Jupiter Satellite Broadcasting Corporation, or JSBC, except for *AXN Japan, Channel BB* and the J Sports Broadcasting channels which hold their own licenses. The broadcast licenses and satellite capacity leases for those of JPC s 33% or greater owned channels that are delivered by SkyPerfecTV2 are held by four other companies that are majority owned by unaffiliated entities. JSBC s leases with JSAT for bandwidth capacity on JSAT s two satellites expire between 2006 and 2011. The leases for bandwidth capacity with respect to the SkyPerfecTV2 platform expire between 2012 and 2014. JSBC and other licensed broadcasters then contract with the platform operator, such as SkyPerfecTV, for customer management and marketing services (sales and marketing, billing and collection) and for encoding services (compression, encoding and multiplexing of signals for transmission) on behalf of the licensed channels. The majority of channels in which JPC holds an interest are marketed as basic television services to DTH subscribers with distribution at December 31, 2004 ranging from 3.2 million homes for *Shop Channel* (which is carried as a free service to all DTH subscribers) to 281,000 homes for more recently launched channels, such as *Animal Planet Japan*.

Approximately 83% of JPC s consolidated revenue for 2004 was attributable to retail revenue generated by the *Shop Channel*. Cable operators are paid distribution fees to carry the *Shop Channel,* which are either fixed rate per subscriber fees or the greater of fixed rate per subscriber fees and a percentage of revenue generated through sales to the cable operator s viewers. SkyPerfecTV is paid fixed rate per subscriber distribution fees to provide the *Shop Channel* to its DTH subscribers. After *Shop Channel,* the J Sports Broadcasting channels generate the most revenue of the channels in which JPC has an interest. The majority of this revenue is derived from cable and satellite subscriptions. Currently, advertising sales are not a significant component of JPC s revenue.

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

Japan Other

At December 31, 2004, we also owned an approximate 35% indirect ownership interest in Mediatti Communications, Inc. Mediatti is a provider of cable television and high speed Internet access services in Japan that served approximately 91,500 basic cable subscribers and 50,500 Internet subscribers at December 31, 2004. Our interest in Mediatti is held through Liberty Japan MC, LLC, a company of which we own approximately 93.1% and Sumitomo Corporation owns approximately 6.9%. Sumitomo has the option until February 2006 to increase its ownership interest in Liberty Japan MC to up to 50%.

Liberty Japan MC owns a 36.4% voting interest in Mediatti Communications and an additional 0.87% interest that has limited veto rights. Liberty Japan MC has the option until February 2006 to acquire from Mediatti up to 9,463 additional Mediatti shares at a price of ¥290,000 per share. If such option is fully exercised, Liberty Japan MC s interest in Mediatti will be approximately 46%. The additional interest that Liberty Japan MC has the right to acquire may initially be in the form of non-voting Class A shares, but it is expected that any Class A shares owned by Liberty Japan MC will be converted to voting common stock.

Liberty Japan MC, Olympus Mediacom L.P. and two minority shareholders of Mediatti have entered into a shareholders agreement pursuant to which Liberty Japan MC has the right to nominate three of Mediatti s seven directors and which requires that significant actions by Mediatti be approved by at least one director nominated by Liberty Japan MC.

The Mediatti shareholders who are party to the shareholders agreement have granted to each other party whose ownership interest is greater than 10%, a right of first refusal with respect to transfers of their respective interests in Mediatti. Each shareholder also has tag-along rights with respect to such transfers. Olympus Mediacom has a put right that is first exercisable during July 2008 to require Liberty Japan MC to purchase all of its Mediatti shares at fair market value. If Olympus exercises such right, the two minority shareholders who are party to the shareholders agreement may also require Liberty Japan MC to purchase their Mediatti shares at fair market value. If Olympus does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at fair market value. If both the Olympus put right and the Liberty Japan MC call right expire without being exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010.

Australia

We also own minority interests in broadband distributors and video programmers operating in Australia. UGC owns an indirect approximate 34% equity interest in Austar United Communications Ltd. Austar United provides pay television services, Internet access and mobile telephony services to subscribers in regional and rural Australia and the capital cities of Hobart and Darwin. In addition, we own an approximate 20% equity interest in Premium Movie Partnership, which supplies three premium movie-programming channels to the major subscription television distributors in Australia. PMP s partners include Showtime, Twentieth Century Fox, Sony Pictures, Paramount Pictures and Universal Studios.

Latin America

Our Latin American operations are conducted primarily through VTR GlobalCom S.A., a wholly owned subsidiary of UGC, and our wholly owned subsidiaries Liberty Cablevision of Puerto Rico Ltd. and Pramer S.C.A. UGC also has subsidiaries that are broadband providers operating in Brazil and Peru.

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

VTR GlobalCom S.A.

UGC s primary Latin American operation, VTR GlobalCom S.A., which we refer to as VTR, is Chile s largest multi-channel television and high-speed Internet access provider in terms of homes passed and number of subscribers, and Chile s second largest provider of residential telephony services, in terms of lines in service. VTR provides services in Santiago, Chile s largest city, the large regional cities of Iquique, Antofagasta, Concepción, Viña del Mar, Valparaiso and Rancagua, and smaller cities across Chile. Approximately 96% of its video subscribers are served via wireline cable, with the remainder via MMDS technologies. VTR s network is approximately 60% upgraded to two-way capability, with 65% of its basic cable subscribers served by a network with a bandwidth of at least 750 MHz. VTR has an approximate 70% market share of cable television services throughout Chile and an approximate 51% market share within Santiago.

VTR s channel lineup consists of 52 to 68 channels segregated into two tiers of analog cable service: a basic service with 52 to 57 channels and a premium service with 11 channels. VTR offers basic tier programming similar to the basic tier program lineup in the United States, including more premium-like channels such as HBO, Cinemax and Cinecanal on the basic tier. As a result, subscription to its existing premium service package is limited because its basic analog package contains similar channels. VTR obtains programming from the United States, Europe, Argentina and Mexico. Domestic cable television programming in Chile is only just beginning to develop around local events such as soccer matches.

VTR offers several alternatives of always on, unlimited-use high-speed Internet access to residences and small/home offices under the brand name Banda Ancha in 22 communities within Santiago and 12 cities outside Santiago. Subscribers can purchase one of five services with download speeds ranging from 128 Kbps to 2.4 Mbps. For a moderate to heavy Internet user, VTR s Internet service is generally less expensive than a dial-up service with its metered usage. To provide more flexibility to the user, VTR also offers Banda Ancha Flex, where a low monthly flat fee includes the first 200 minutes, with metered usage above 200 minutes. Approximately 33% of VTR s basic cable subscribers also receive Internet service, representing approximately 95% of its Internet subscribers.

VTR offers telephony service to customers in 22 communities within Santiago and seven cities outside Santiago. VTR offers basic dial tone service as well as several value-added services. VTR primarily provides service to residential customers who require one or two telephony lines. It also provides service to small businesses and home offices. In 2004, VTR began offering telephony services to its two-way homes passed by applying VoIP. Approximately 40% of VTR s basic cable subscribers also receive telephony service, representing approximately 65% of its telephony subscribers.

On January 23, 2004, we, Liberty and CristalChile Comunicaciones S.A., our partner in Metrópolis-Intercom S.A., a cable operator in Chile, entered into an agreement pursuant to which each agreed to use its respective commercially reasonable efforts to combine the businesses of Metrópolis and VTR, in an effort to facilitate the provision of enhanced services to cable and telecommunications consumers in the Chilean marketplace. The combination is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of our board of directors and the boards of directors of CristalChile, VTR and UGC (including, in the case of UGC, the independent members of UGC s board of directors) and the receipt of necessary third party approvals and waivers. The Chilean antitrust authorities approved the combination in October 2004. An action was filed with the Chilean Supreme Court seeking to reverse such approval, but the action was dismissed on March 10, 2005. We, CristalChile and UGC are currently negotiating the terms of the definitive agreements for the combination. If the proposed combination is consummated as contemplated, UGC will own 80% of the voting and equity rights in the combined entity, CristalChile will own the remaining 20% and we will receive a promissory note from the combined entity. CristalChile will have the right to elect 1 of the 5 members of the combined entity s board and will have veto rights over certain material decisions for so long as CristalChile owns at least a 10% equity interest in the combined entity. In addition, CristalChile will have a put right which will allow CristalChile to require UGC to purchase all, but not less than all, of its interest in the combined entity at the fair market value of the interest, subject to a minimum price, which put right will end on the tenth anniversary of the combination. Liberty has agreed to perform UGC s obligations under CristalChile s put if UGC does not do so. We have agreed to indemnify Liberty against its obligations with respect to CristalChile s put right.

Liberty Cablevision of Puerto Rico Ltd.

Liberty Cablevision of Puerto Rico Ltd., our wholly owned subsidiary, is one of Puerto Rico s largest cable television operators based on number of subscribers. Liberty Cablevision of Puerto Rico operates three head ends, serving the communities of Luquillo, Arecibo, Florida, Caguas, Humacao, Cayey and Barranquitas and 30 other municipalities. In portions of its network, Liberty Cablevision of Puerto Rico also offers high speed Internet access and cable telephony services. Liberty Cablevision of Puerto Rico s network is approximately 94% upgraded to two-way capability, with all of its basic cable subscribers served by a system with a bandwidth of at least 550 MHz.

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

Liberty Cablevision of Puerto Rico offers four tiers of high-speed Internet access with download speeds ranging from 64 Kbps to 1.5 Mbps. Approximately 14% of Liberty Cablevision of Puerto Rico s basic cable subscribers also receive Internet service, representing approximately 82% of its Internet subscribers.

Liberty Cablevision of Puerto Rico has begun offering telephony service using IP-based technology. Currently, 7% of Liberty Cablevision of Puerto Rico s basic cable subscribers also receive telephony service, representing approximately 95% of its telephony subscribers.

Pramer S.C.A.

Pramer S.C.A., a wholly owned subsidiary of LMI, is an Argentine programming company which supplies programming services to cable television and DTH satellite distributors in Latin America and Spain. At December 31, 2004, Pramer owned or had an equity interest in 11 channels and produced, marketed, distributed or otherwise represented 12 additional channels, including two of Argentina s five terrestrial broadcast stations. Subscription units for 2004 ranged from approximately 24,000 for the smallest premium service to approximately 9.6 million for the most popular basic service. Pramer s wholly owned channels include *Canal (a)*, the first Latin-American quality arts channel, *Film & Arts,* offering quality films, concerts, operas and interviews with artists, *elgourmet.com,* a channel for the lovers of the good things in life, and *Magic Kids,* an entertainment children s channel, all of which are offered as basic television services. Pramer s represented channels include *Hallmark* and *Cosmopolitan Channel* (in which we own a 50% interest through another subsidiary).

Pramer s affiliation agreements with cable television and satellite distributors provide for payments based on the number of subscribers that receive Pramer s services. Cablevisión S.A., an Argentine cable provider, represented approximately 13% of Pramer s consolidated revenue for 2004. Pramer s affiliation agreement with Cablevisión expired in December 2004. The parties have agreed to extend this agreement until June 30, 2005 with Cablevisión paying Pramer a fixed monthly fee which represents an approximate 35% discount from the applicable fees in 2004. During this period, the parties will seek to negotiate a new affiliation agreement.

Pramer handles affiliate sales for the 12 channels it represents and advertising sales for 6 of such channels. Pramer collects the revenue for the represented channels and pays the channel owners either a fixed fee or a fee based on amounts collected. Pramer s representation of the *Hallmark* channel, including the provision of satellite uplinking and other services, accounted for approximately 9% of Pramer s consolidated revenue for 2004. The representation agreement for the *Hallmark* channel expires on December 31, 2005, subject to earlier termination under certain circumstances.

Pramer has two sources of content: rights that are purchased from various distributors and its own productions. Pramer s own productions are usually contracted with independent producers.

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

Latin America Other

Our 50% owned affiliate, Metrópolis-Intercom S.A. is Chile s second largest cable operator based on the number of subscribers served. Metrópolis operates cable systems in nine of the most densely populated cities within Chile, including Santiago (the capital of Chile), Viña del Mar, Concepción and Temuco. At December 31, 2004, Metrópolis served approximately 224,800 basic cable subscribers, 38,200 Internet subscribers and 10,800 telephony subscribers. CristalChile Comunicaciones S.A., a large publicly traded Chilean company with significant media interests, and we each own a 50% interest in Metrópolis. The board of directors of Metrópolis consists of eight members. CristalChile and we each designate one-half of the directors of Metrópolis and almost all actions by the board require the consent of representatives of each partner. LMI has given CristalChile the right to control the day-to-day operations of Metrópolis.

As discussed under VTR GlobalCom S.A. above, we, Liberty and CristalChile have entered into an agreement pursuant to which each has agreed to use its commercially reasonable efforts to combine the businesses of Metrópolis and VTR. The combination is subject to certain conditions. If the combination does not occur, we and CristalChile have each agreed to fund its pro rata share of a capital call sufficient to retire Metrópolis local debt facility, and to amend the existing agreement governing the parties relationship with respect to Metrópolis. Among other things, our approval rights as an owner of Metrópolis will be limited to certain material matters, including material related party transactions, but will not include the adoption of budgets or business plans or the making of capital calls. CristalChile will have a call right with respect to our interest in Metrópolis, subject to a minimum price, and for so long as CristalChile owns directly or indirectly 50% or more of the shares of Metrópolis, CristalChile will have a drag-along right, subject to a minimum purchase price, with respect to our interest in Metrópolis in connection with a bona fide sale of all of its and its affiliates direct interest in Metrópolis. We will have tag-along rights in connection with sales by CristalChile or its affiliates of any of their direct interests in Metrópolis. Neither party will have a put right to the other party of its interest in Metrópolis.

Our majority owned subsidiary, Liberty Programming Argentina, LLC, owns a 40% equity interest in Torneos y Competencias, 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. We also own a 10.6% equity interest in Fox Pan American Sports LLC, a joint venture that develops and operates multiple Spanish language subscription television and radio services comprised predominantly of sports programming. Fox Pan American Sports is a principal customer of Torneos.

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Regulatory Matters

Overview

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

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

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

European Union

Austria, Belgium, Cyprus, The Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom are Member States of the European Union or EU. As such, these countries are required to enact national legislation that implements EU directives. Although not an EU Member State, Norway is a member of the European Economic Area and generally has implemented or is implementing the same principles on the same timetable as EU Member States. In addition, Romania is seeking to join the EU in 2007 and its laws are strongly influenced by EU directives since it will need to comply with these directives in order to join the EU. As a result, most of the markets in Europe in which our businesses operate have been significantly affected by the regulatory framework that has been developed by the EU.

Communications Services and Competition Directives

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

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

- Directive on the Authorization of Electronic Communications Networks and Services (referred to as the Authorization Directive);

- Directive on Access to and Interconnection of Electronic Communications Networks and Services (referred to as the Access Directive);

Directive on Universal Service and Users Rights relating to Electronic Networks and Services (referred to as the Universal Service and Users Rights Directive);

Directive on Privacy and Electronic Communications (referred to as the Privacy Directive); and

Directive on Competition in the Markets for Electronic Communications and Services (referred to as the Competition Directive).

In addition to the Directives, the European Parliament and European Council made a decision intended to ensure the efficient use of radio spectrum within the EU. Existing EU member countries were required to implement the Framework, Authorization, Access and the Universal Service and Users Rights Directives by July 25, 2003. The Privacy Directive was to have been implemented by October 31, 2003. The Competition Directive is self-implementing and does not require any national measures to be adopted. The 10 countries that joined the EU on May 1, 2004 were to ensure compliance with the Directives as of the date of accession. Measures seeking to implement the Directives are in force in most Member States. Of those countries that we operate in only Belgium and the Czech Republic still need to bring into force laws seeking substantially to implement the Directives.

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

Many of the obligations included within the Directives apply only to operators or service providers with Significant Market Power in a relevant market. For example, the provisions of the Access Directive allow Member States to mandate certain access obligations only for those operators and service providers that are deemed to have Significant Market Power. For purposes of the Directives, an operator or service provider will be deemed to have Significant Market Power where, either individually or jointly with others, it enjoys a position of significant economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and consumers. As part of the implementation of certain of the Directives, the National Regulatory Authority or NRA is obliged to analyze 18 predefined markets to determine if any operator or service provider has Significant Market Power. We may be found to have Significant Market Power in some markets and in some countries. In particular, in those markets where we offer telephony services, we may be found to have Significant Market Power in the termination of calls on our own network. In addition, in some countries we may be found to have Significant Market Power in the wholesale distribution of television channels. Some national regulators may also seek to find that we have Significant Market Power in the retail broadband Internet market. Although we would vigorously dispute this last finding, there can be no assurance that such finding will not be made. In the event that we are found to have Significant Market Power in any particular market, a NRA could impose certain conditions on us to prevent abusive behavior by us.

The European Commission has adopted a Recommendation on relevant markets susceptible to ex-ante regulation under the Directives. Under the Directives, the European Commission has the power to veto the assessment by a NRA of Significant Market Power in any market not set out in this Recommendation as well as any finding by a NRA of Significant Market Power in any market whether or not it is set out in the Recommendation.

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

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

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

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

API Standards. The Directives require Member States to encourage the use of open Application Programming Interfaces or APIs. The European Commission is required to conduct a review to ascertain whether interoperability and freedom of choice have been adequately achieved in the Member States with respect to digital interactive video services. If the European Commission reaches a negative conclusion on this issue with respect to one or more Member States, it has the power to mandate use of a particular API.

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

Other. Our European operating companies must comply with both specific and general legislation concerning data protection, content provider liability and electronic commerce. These issues are broadly harmonized at the EU level. This is an area that may become more significant over time.

Broadcasting. Broadcasting is an area outside the scope of the Directives. Generally, broadcasts originating in and intended for reception within a country must respect the laws of that country. However, pursuant to another Directive, EU Member States are required to allow broadcast signals of broadcasters in another EU Member State to be freely transmitted within their territory so long as the broadcaster complies with the law of the originating EU Member State. An international convention extends this right beyond the EU s borders into the majority of territories in which we operate. An EU directive also establishes quotas for the transmission of European-produced programming and programs made by European producers who are independent of broadcasters. The EU legal framework governing broadcast television currently is under review.

Competition Law and Other Matters

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

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

Austria

Austria has recently brought into effect a communications law that broadly transposes the Directives. The NRA is in the process of analyzing the 18 predefined markets to determine if any operator or service provider has Significant Market Power. We have been notified that the regulator s intention is to define us as having Significant Market Power in the call termination market on our own telecommunications network, together with all other network operators. It is unknown if and which conditions the NRA will impose on the parties that have been determined to have Significant Market Power.

France

France has recently brought into effect a communications law that broadly transposes the Directives. The NRA is in the process of analyzing the 18 predefined markets to determine if any operator or service provider has Significant Market Power.

The Netherlands

The Netherlands has recently brought into effect a communications law that broadly transposes the Directives. The NRA is currently analyzing the 18 predefined markets to determine if any operator or service provider has Significant Market Power, which could lead to obligations being placed on us, especially with respect to television distribution (where we faced obligations under the old regime). In the last quarter of 2004, the incumbent telecommunications operator, KPN, requested access to our network to distribute television programming. The NRA has denied the request of KPN, stating that we have no obligation to lease capacity on our network to KPN. There have been long-standing debates in The Netherlands regarding the desirability of requiring cable operators to open their networks to unaffiliated Internet service providers. To date these discussions have not led to a requirement for cable operators to offer such an access service.

The Dutch competition authority, NMA, is still investigating the price increases that we made with respect to our video services in 2004 to determine whether we abused our dominant position. If the NMA were to find that the price increases amount to an abuse of a dominant position, the NMA could impose fines of up to 10% of our 2003 video revenue in The Netherlands and we would be obliged to reconsider the price increases. Historically, in many parts of the Netherlands, we are a party to contracts with local municipalities that seek to control aspects of our Dutch business including, in some cases, pricing and package composition. Most of these contracts have been eliminated by agreement, although some contracts are still in force and under negotiation. In some cases there is litigation ongoing where some municipalities have resisted our attempts to move away from the contracts.

Japan

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

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

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

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

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

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

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

Under these amendments, carriers who provide Basic Telecommunications Services, defined as telecommunications that are indispensable to the lives of the citizenry as specified in MIC ordinances, will be required to provide such services in an appropriate, fair and stable manner. Carriers providing Basic Telecommunications

Services must do so pursuant to terms and conditions and for rates that have been filed in advance with the MIC. The MIC may order modifications to contract terms and conditions it deems inappropriate for certain specified reasons. The terms and conditions as well as charges and tariffs for the provision of telecommunications services for Type I carriers were strictly regulated, but under these amendments, carriers may generally negotiate terms and conditions with their users (including fees and charges) except those relating to Basic Telecommunications Services.
Under these amendments, interconnection with telecommunications carriers was also deregulated. Telecommunications carriers, other than those exceeding certain standards specified in the Telecommunications Business Law (such as NTT), may set interconnection tariffs and terms and conditions through independent negotiations without MIC approval.
Telecommunication carriers that own their telecommunication circuit facilities are required to maintain such facilities in conformity with specified technical standards. The MIC may order a carrier that fails to meet such standards to improve or repair its telecommunication facilities.

Latin America

Chile

Cable and telephony applications for permits and concessions are submitted to the Ministry of Transportation and Telecommunications, which, through the Subsecretary of Telecommunications or Subtel, is responsible for regulating, granting permits and concessions, registering and supervising all telecommunications providers. The Antitrust Court (*Tribunal de Defensa de la Libre Competencia)* also plays an important role in regulating telecommunications in Chile through its judgments. Wireline cable television permits are non-exclusive and granted for indefinite terms. Wireless television permits have renewable terms of 10 years, while telecommunication concessions (for example, for fixed or mobile telephony) have renewable 30-year terms. Wireline and wireless permits and concessions require operation in accordance with a technical plan submitted by the licensee together with the permit or concession application. Our businesses have cable permits in most major and medium sized markets in Chile. Cross ownership between cable television, Internet access and telephony is also permitted.
In general, the General Telecommunications Law of Chile allows telecommunications companies to provide service and develop telecommunication infrastructure without geographic restrictions or exclusive rights to serve. Chile currently has a competitive, multi-carrier system for international and local long distance telecommunications services. Regulatory authorities currently determine prices charged to customers for local telecommunications services provided by incumbent local fixed telephony operators until the market is determined to be competitive. Charges for access (prices for terminating calls in fixed or mobile networks), other interconnection services and unbundling services are determined for all operators, whether or not incumbent. To date, the regulatory authorities have determined prices charged to customers by the dominant local wireline telephony providers and the interconnection tariffs for several other operators. In all cases, the authorities determine a maximum rate structure that shall be in force for a five year period. Local service providers with concessions are obligated to provide service to all customers that are within their service area or are willing to pay for an extension to receive service. Local providers, whether or not incumbent, must also give long distance service providers equal access to their network connections at regulated prices.

Puerto Rico

U.S. Federal Communications Commission Regulation. The Communications Act of 1934, as amended, and the regulations of the Federal Communications Commission (FCC) significantly affect the cable system operations of our subsidiary Liberty Cablevision of Puerto Rico, including, for example, subscriber rates; carriage of broadcast television stations; leased access and public, educational and government access; customer service; program packaging to subscribers; obscene programming; technical operating standards; use of utility poles and conduit; and ownership transfers. Thus, the FCC limits the price that cable systems that are not subject to effective competition may charge for basic services and equipment. Cable systems also must carry, without compensation, certain commercial and non-commercial television station programming within their geographic markets. Alternatively, local television stations may insist that a cable operator negotiate for retransmission consent. In addition, the FCC initiated a further notice of proposed rulemaking to determine whether a television station may assert rights to carriage on cable systems of both analog and digital signals during the transition to digital television and to carriage of all digital signals transmitted by a station. On February 10, 2005, the FCC denied mandatory dual carriage of a television station s analog and digital signals during the digital television transition and mandatory carriage of all digital signals, other than its primary signal.

Liberty Cablevision of Puerto Rico also offers high-speed Internet access over portions of its network. The FCC has classified high-speed Internet access service as an interstate information service which the FCC traditionally has not regulated. However, a federal appellate court vacated the FCC s classification, and rehearing was denied. On December 3, 2004, the United States Supreme Court decided to review the federal appellate court s decision. Thus, it is uncertain how Internet access services ultimately will be classified and regulated. The FCC also adopted a notice of proposed rulemaking to examine whether local franchising authorities should be allowed to impose regulatory requirements on high-speed Internet access, among other issues.

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

Argentina

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

Competition

Markets for broadband distribution, including cable and satellite distribution, Internet access and telephony services, and video programming generally are highly competitive and rapidly evolving. Consequently, our businesses expect to face increased competition in these markets in the countries in which they operate, and specifically as a result of deregulation in the EU.

Broadband Distribution

Video Distribution

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

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In some countries, our businesses face significant competition from other cable operators, while in other countries the primary competition is from DTH satellite service providers, digital television terrestrial broadcasters and/or other distributors of video programming using broadband networks. In some of our largest markets, including The Netherlands, France and Japan, we are facing increasing competition from video services offered by or over the network of the incumbent telecommunications operator. In Austria, the primary competition for video services is from satellite television service providers.

Internet

With respect to Internet access services and online content, our businesses face competition in a rapidly evolving marketplace from incumbent and non-incumbent telecommunications companies, other cable-based Internet service providers, non-cable-based Internet service providers and Internet portals, many of which have substantial resources. The Internet services offered by these competitors include both traditional dial-up Internet services and high-speed Internet access services using DSL or ADSL technology or fiber optic lines, in a range of product offerings with varying speeds and pricing, as well as interactive computer-based services, data and other non-video services to homes and businesses.

Telephony

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

Programming Services

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

Employees

As of December 31, 2004, our consolidated subsidiaries and we had an aggregate of approximately 11,800 employees. We believe that our employee relations are good.

(d) Financial Information About Geographic Areas

Financial information related to the geographic areas in which we do business appears in note 20 to our consolidated financial statements included in Part II of this report.

(e) Available Information

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

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RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, you should carefully consider the following risk factors in evaluating us and our businesses.

Factors Relating to Overseas Operations and Regulations

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

- longer payment cycles by customers in foreign countries that may increase the uncertainty associated with recoverable accounts;
- difficulties in staffing and managing international operations;
- economic instability;
- potentially adverse tax consequences;
- export and import restrictions, tariffs and other trade barriers;
- increases in taxes and governmental royalties and fees;
- involuntary renegotiation of contracts with foreign governments;
- changes in foreign and domestic laws and policies that govern operations of foreign-based companies; and
- disruptions of services or loss of property or equipment that are critical to overseas businesses due to expropriation, nationalization, war, insurrection, terrorism or general social or political unrest.

We are exposed to potentially volatile fluctuations of the U.S. dollar (our functional currency) against the currencies of our operating subsidiaries and affiliates. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of an operating subsidiary or affiliate of ours will cause us to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, we and our operating subsidiaries and affiliates are exposed to foreign currency risk to the extent that we or they enter into transactions denominated in currencies other than our respective functional currencies, such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) that are denominated in a currency other than our or their own functional currency. Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to operating subsidiaries monetary assets and liabilities and the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. Our primary exposure to foreign currency risk is the euro as over 50% of our U.S. dollar revenue is derived from countries where the euro is the functional currency. In addition, our operating results are significantly impacted by changes in the exchange rates for the Japanese yen, Chilean peso and, to a lesser degree, other local currencies in Europe. In the past, we generally have not entered into derivative transactions that are designed to reduce our long-term exposure to foreign currency exchange risk.

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

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

We may determine to acquire additional communications companies. These acquisitions may require the approval of governmental authorities, which can block, impose conditions on or delay an acquisition.

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

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

We will be subject to the risk of revocation or loss of our telecommunications and media licenses. In certain operating regions, the services provided by our businesses require receipt of a license from the appropriate national, provincial and/or local regulatory authority. In those regions, regulatory authorities may have significant discretion in granting licenses, including the term of the licenses, and are often under no obligation to renew them when they expire. The breach of a license or applicable law, even if inadvertent, can result in the revocation, suspension, cancellation or reduction in the term of a license or the imposition of fines. In addition, regulatory authorities may grant new licenses to third parties, resulting in greater competition in territories where our businesses may already be licensed. In order to promote competition, licenses may also require that third parties be granted access to the bandwidth, frequency capacity, facilities or services of our businesses. There can be no assurance that we will be able to obtain or retain any required license, or that any renewal of a required license will not be on less favorable terms.

We may have to pay U.S. taxes on earnings of certain of our foreign subsidiaries regardless of whether such earnings are actually distributed to us, and we may be limited in claiming foreign tax credits; since substantially all of our revenue is generated through our foreign investments, these tax risks could have a material adverse impact on our effective income tax rate, financial condition and liquidity. Certain foreign

corporations in which we have interests particularly those in which we have controlling interests, are considered to be controlled foreign corporations under U.S. tax law. In general, our pro rata share of certain income earned by our subsidiaries that are controlled foreign corporations during a taxable year when such subsidiaries have current or accumulated earnings and profits will be included in our income when the income is earned, regardless of whether the income is distributed to us. This income, typically referred to as Subpart F income, generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain currency exchange gains in excess of currency exchange losses, and certain related party sales and services income. In addition, a U.S. stockholder of a controlled foreign corporation may be required to include in income its pro rata share of the controlled foreign corporation s increase for the year in current or accumulated earnings and profits (other than Subpart F income) invested in U.S. property, regardless of whether the U.S. stockholder received any actual cash distributions from the controlled foreign corporation. Since we are investors in foreign corporations, we could have significant amounts of Subpart F income. Although we intend to take reasonable tax planning measures to limit our tax exposure, we cannot assure you that we will be able to do so.

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

Factors Relating to Technology and Competition

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

We operate in an increasingly competitive market, and there is a risk that we will not be able to effectively compete with other service providers. The markets for cable television, high-speed Internet access and telecommunications in many of the regions in which we operate are highly competitive and highly fragmented. In the provision of video services, we face competition from other cable television service providers, direct-to-home satellite service providers, digital terrestrial television broadcasters and video over asymmetric digital subscriber line providers, among others. Our operating businesses in The Netherlands, France and Japan are facing increasing competition from video services provided by or over the networks of incumbent telecommunications operators. In the provision of telephony services, we face competition from the incumbent telecommunications operators in each country in which we operate. These operators have substantially more experience in providing telephone services and have greater resources to devote to the provision of telephone

services. In addition, in many countries, we face competition from wireless telephone providers, facilities-based and resale telephone operators, voice over Internet protocol providers and other providers. In the provision of Internet access services and online content, we face competition from incumbent telecommunications companies and other telecommunications operators, other cable-based Internet service providers, non-cable based Internet service providers, Internet portals and satellite, microwave and other wireless providers. The Internet services offered by these competitors include both traditional dial-up access services and high-speed access services. Digital subscriber line is a technology that provides high-speed Internet access over traditional telephone lines. Both incumbent and alternative providers offer digital subscriber line services. We expect digital subscriber line to be an increasingly strong competitor in the provision of Internet services.

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

We expect the level and intensity of competition to increase in the future from both existing competitors and new market entrants as a result of changes in the regulatory framework of the industries in which we operate, the influx of new market entrants and strategic alliances and cooperative relationships among industry participants. Increased competition may result in increased customer churn, reduce the rate of customer acquisition and lead to significant price competition, in each case resulting in decreases in cash flows, operating margins and profitability. The inability to compete effectively may result in the loss of subscribers, and our revenue and stock price may suffer.

We may not be able to obtain attractive programming for our digital video services, thereby lowering demand for our services. We rely on programming suppliers for the bulk of our programming content. We may not be able to obtain sufficient high-quality programming for our digital video services on satisfactory terms or at all in order to offer compelling digital video services. This may reduce demand for our services, thereby lowering our future revenue. It may also limit our ability to migrate customers from lower tier programming to higher tier programming, thereby inhibiting their ability to execute their business plans. Furthermore, we may not be able to obtain attractive country-specific programming for video services. This could further lower revenue and profitability. In addition, must-carry requirements may consume channel capacity otherwise available for other services.

Some of our operating businesses depend upon third parties for the distribution of their products and services. In certain operating regions, our businesses require access to utility poles, roadside conduits and leased fiber that interconnect our headends and/or connect our headends to telecommunications facilities of third parties. This infrastructure is, in some cases, owned by regional utility companies or other third party administrators, and access to the infrastructure is licensed to our businesses. In other operating regions, the transmission of cable programming content to regional headend facilities is accomplished via communications satellites owned by third parties, who, in some cases, are competitors. We cannot assure you that our businesses will be able to renew any existing access agreements with these third parties or enter into new agreements for additional access rights, which may be necessary for the expansion of our businesses in these regions. Any cancellation, delay or interruption in these access rights would disrupt the delivery of our products and services to customers in the affected regions. In addition, the failure to obtain additional access rights from such third parties could preclude expansionary efforts in these operating regions. We also cannot assure you that any alternative distribution means will be available in these regions, on reasonable terms or at all.

We may compete with Liberty for business opportunities. Our former parent company, Liberty, has interests in various U.S. programming companies that have subsidiaries or controlled affiliates that own or operate foreign programming services that may compete with the programming services to be offered by our businesses. In addition, Liberty may seek to expand its foreign programming services to capitalize on the significant growth potential presented by the international cable market. As a result of these expansionary efforts, our programming services may find themselves in direct competition with those of Liberty. We have no rights in respect of international programming opportunities developed by or presented to the subsidiaries or controlled affiliates of Liberty s U.S. programming companies and the pursuit of these opportunities by such

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subsidiaries or affiliates may adversely affect our interests. Since we will have overlapping directors with Liberty, the pursuit of these opportunities could create, or appear to create, potential conflicts of interest.

Factors Relating to Certain Financial Matters

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

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

We have a history of reporting operating and net losses. Our net earnings (losses) amounted to $(31.8 million), $20.9 million, and $(568.2 million), for the years ended December 31, 2004, 2003, and 2002, respectively. In light of our historical financial performance we cannot assure you that we will report operating income or net earnings in the near future or at all.

If we fail to meet required capital calls to a company in which we hold interests, our interests in that company could be diluted or we could forfeit important rights. We are parties to stockholder and partnership agreements that provide for possible capital calls on stockholders and partners. Failure to meet a capital call, or other commitment to provide capital or loans to a particular company in which we holds interests may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of the right to vote or exercise other rights or, in some instances, a breach of contract action for damages. The ability to meet capital calls or other capital or loan commitments is subject to the ability to access cash.

We may not freely access the cash of our operating companies. Our operations are conducted through our respective subsidiaries. Our potential sources of cash will include our available cash balances, net cash from the operating activities of our subsidiaries, dividends and interest from our investments, availability under credit facilities and proceeds from asset sales. The ability of our operating subsidiaries to pay dividends or to make other payments or advances to us depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of our operating subsidiaries are subject to loan agreements or bank facilities that restrict sales of assets and prohibit or limit the payment of dividends or the making of distributions, loans or advances to stockholders and partners. In addition, because these subsidiaries are separate and distinct legal entities they have no obligation to provide us with funds for payment obligations, whether by dividends, distributions, loans or other payments. With respect to those companies in which we have less than a majority voting interest, we do not have sufficient voting control to cause those companies to pay dividends or make other payments or advances to any of their partners or stockholders, including us.

If we are unable to satisfy completely the regulatory requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned and our stock price may suffer. Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to do a comprehensive evaluation of their internal control over financial reporting. To comply with this statute, we will be required to document and test our internal control procedures; our management will be required to assess and issue a report concerning our internal control over financial reporting; and our independent auditors will be required to issue an opinion on management s assessment of those matters. Our compliance with Section 404 of the Sarbanes-Oxley Act will first be tested in connection with the filing of our Annual Report on Form 10-K for the fiscal year ending December 31, 2005. The rules governing the standards that must be met for management to assess our internal control over financial reporting are new and complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of our testing, our management may identify material weaknesses or deficiencies which may not be remedied in time to meet the deadline imposed by the Sarbanes-Oxley Act. If management cannot favorably assess the effectiveness of our internal control over financial reporting or our auditors identify material weaknesses in those controls, investor confidence in our financial results may weaken, and our stock price may suffer.

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

Certain or our subsidiaries are subject to significant financial and operating restrictions contained in outstanding credit agreements, indentures and similar instruments of indebtedness. These restrictions will affect, and in some cases significantly limit or prohibit, among other things, the ability of those subsidiaries to:

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

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

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

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

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

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Factors Relating to Governance Matters

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

- authorizing a capital structure with multiple series of common stock: a Series B that entitles the holders to ten votes per share; a Series A that entitles the holders to one vote per share; and a Series C that, except as otherwise required by applicable law, entitles the holder to no voting rights;
- authorizing the issuance of blank check preferred stock, which could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;
- classifying our board of directors with staggered three-year terms, which may lengthen the time required to gain control of our board of directors;
- limiting who may call special meetings of stockholders;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- requiring stockholder approval by holders of at least 80% of our voting power or the approval by at least 75% of our board of directors with respect to certain extraordinary matters, such as a merger or consolidation with us, a sale of all or substantially all of our assets or an amendment to our restated certificate of incorporation or bylaws; and
- the existence of authorized and unissued stock which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us.

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

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

Item 2. PROPERTIES

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

UGC leases its executive offices in Denver, Colorado. UGC s various operating companies lease or own their respective administrative offices, headend facilities, rights of way and other property necessary for their operations. The physical components of their broadband networks require maintenance and periodic upgrades to support the new services and products they introduce.

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

Pramer leases its offices in Buenos Aires, Argentina.

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

Item 3. LEGAL PROCEEDINGS

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

Old UGC Reorganization. On January 12, 2004, Old UGC, Inc., a wholly owned subsidiary of 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. On September 21, 2004, UGC and Old UGC filed with the Bankruptcy Court a plan of reorganization, which was subsequently amended on October 5, 2004. On November 10, 2004, the Bankruptcy Court confirmed the amended plan of reorganization.

On November 24, 2004, Old UGC completed the restructuring of its indebtedness and other obligations pursuant to the terms of the approved plan of reorganization. In the restructuring, Old UGC acquired (i) $638.0 million face amount of Old UGC senior notes held by UGC in consideration for newly issued common stock of Old UGC and (ii) $599.2 million face amount of Old UGC senior notes held by IDT United, Inc. in consideration for newly issued preferred stock of Old UGC. At the time, UGC owned a 33% common equity interest and a 94% fully diluted interest in IDT United. The Old UGC senior notes held by third parties ($24.6 million face amount) were left outstanding (after cure, through the repayment of approximately $5.1 million in unpaid interest, and reinstatement) and were subsequently redeemed in February 2005. In addition, Old UGC paid approximately $3.1 million in settlement of certain outstanding guarantee obligations.

Following the restructuring, UGC acquired the interests in IDT United that it did not previously own for a total cash purchase price of approximately $22.7 million. As a result of Old UGC s restructuring and UGC s purchase of the IDT United interests, UGC continues to hold 100% of Old UGC s outstanding equity securities.

Movieco. On December 3, 2002, Europe Movieco Partners Limited (Movieco) filed a request for arbitration against United Pan-Europe Communications, N.V., a subsidiary of UGC that we refer to as UPC, with the International Court of Arbitration of the International Chamber of Commerce. The request contained claims that were based on a cable affiliation agreement entered into between the parties on December 21, 1999. In the proceedings, Movieco claimed (1) unpaid license fees due under the affiliation agreement, plus interest, (2) an order for specific performance of the affiliation agreement or, in the alternative, damages for breach of that agreement, and (3) legal and arbitration costs plus interest. On January 13, 2005, the Arbitral Tribunal rendered an award in which Movieco s claim for the unpaid license fees as described above was sustained and determined that UPC must pay unpaid license fees, plus interest and legal fees. These amounts, which aggregated $49.3 million, were paid during the first quarter of 2005. All other claims and counterclaims were dismissed.

Excite@Home. In 2000, certain of UGC s 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, UGC received a complaint filed on September 26, 2003 by Frank Morrow, on behalf of the General Unsecured Creditors Liquidating Trust of At Home in the United States Bankruptcy Court for the Northern District of California, styled as *In re At Home Corporation, Frank Morrow v. UnitedGlobalCom, Inc. et al.* (Case No. 01-32495-TC). In general, the complaint alleged breach of contract and fiduciary duty by UGC and Old UGC, Inc. The plaintiff filed a claim in the Old UGC bankruptcy proceedings of approximately $2.2 billion. On September 16, 2004, the Bankruptcy Court in the Old UGC bankruptcy proceedings estimated the claim against Old UGC at zero. On November 10, 2004, the Bankruptcy Court confirmed Old UGC s plan of reorganization, which provided that the claim of Excite@Home would receive no distribution and released both Old UGC and UGC from any liability in connection with such claim. The reorganization became effective on November 24, 2004. On February 15, 2005, the parties involved in the California proceeding agreed to dismiss the Excite@Home complaint.

Cignal. On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications filed a lawsuit against UPC in the District Court in Amsterdam, The Netherlands, claiming $200 million on the basis that UPC failed to honor certain option rights that were granted to those shareholders in connection with the acquisition of Cignal by Priority Telecom. UPC believes that it has complied in full with its obligations to these shareholders through the successful completion 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. A hearing was held on March 8, 2005 and a decision is expected in April 2005.

Class Action Lawsuits Relating to the Merger Transaction with UGC. Since January 18, 2005, twenty-one lawsuits have been filed in the Delaware Court of Chancery, and one lawsuit has been filed in the Denver District Court, State of Colorado, all purportedly on behalf of the public stockholders of UGC regarding the announcement on January 18, 2005 of the execution by UGC and us of the agreement and plan of merger for the combination of our companies under a new parent company. The defendants named in these actions include UGC, Gene W. Schneider, Michael T. Fries, David B. Koff, Robert R. Bennett, John C. Malone, John P. Cole, Bernard G. Dvorak, John W. Dick, Paul A. Gould and Gary S. Howard (directors of UGC) and us. The allegations in each of the complaints, which are substantially similar, assert that the defendants have breached their fiduciary duties of loyalty, care, good faith and candor and that various defendants have engaged in self-dealing and unjust enrichment, affirmed an unfair price, and impeded or discouraged other offers for UGC or its assets in bad faith and for improper motives. In addition to seeking to enjoin the transaction, the complaints seek remedies including damages for the public holders of UGC stock and an award of attorney s fees to plaintiffs counsel. On February 11, 2005, the Delaware Court of Chancery consolidated the Delaware lawsuits. In connection with the Delaware lawsuits, defendants have been served with one request for production of documents. The defendants believe the lawsuits are without merit.

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

None.

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PART II

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

Market Information

We have two series of common stock, LMI Series A and LMI Series B, which trade on the Nasdaq National Market under the symbols LBTYA and LBTYB, respectively. Regular trading on our common stock began on June 8, 2004. The following table sets forth the range of high and low sales prices of shares of LMI Series A and LMI Series B common stock for 2004.

	Series A		Series B	
	High	Low	High	Low
2004				
Second quarter	$ 38.00	33.98	41.25	38.79
Third quarter	$ 37.00	28.60	41.25	34.05
Fourth quarter	$ 47.27	33.25	49.31	36.19

Holders

As of February 14, 2005, there were approximately 3,756 and 240 record holders of LMI Series A and LMI Series B common stock, respectively (which amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder).

Dividends

We have not paid any cash dividends on LMI Series A and LMI Series B common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our Board of Directors in light of our earnings, financial condition and other relevant considerations. Pursuant to the Liberty Global merger agreement, neither we nor UGC may pay any cash dividends on our respective common stocks until the mergers contemplated thereby are completed or the merger agreement is terminated. Except for the foregoing, there are currently no restrictions on our ability to pay dividends in cash or stock.

Securities Authorized for Issuance Under Equity Compensation Plans

Information required by this item is incorporated by reference to our definitive proxy statement for our 2005 Annual Meeting of Stockholders.

Recent Sales of Unregistered Securities

None

Use of Proceeds

On July 19, 2004, our registration statement on Form S-1, as amended (File No. 333-116157) with respect to our rights offering, was declared effective by the Securities and Exchange Commission.

In the rights offering, we incurred expenses aggregating $3,771,000, which consisted of SEC registration fees and third party vendor fees, such as printer costs, and we received approximately $739,432,000 in gross proceeds. We used the net proceeds of the rights offering to repay notes payable in the aggregate principal amount of $116,666,000 to Liberty and to repay $30 million of certain other indebtedness. We intend to use the remaining net proceeds for general corporate purposes, including for acquisitions and to make other investments.

Issuer Purchases of Equity Securities

The following table sets forth information concerning our company s purchase of its own equity securities during the fourth quarter of the fiscal year ended December 31, 2004:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
December 2004	3,000,000(1)	$ 42.63	N/A	N/A

(1) On December 7, 2004, we purchased 3,000,000 shares of LMI Series A common stock from Comcast Corporation in a private transaction for a cash purchase price of $127,890,000.

Item 6. SELECTED FINANCIAL DATA.

The following tables present selected historical financial information of (i) certain international cable television and programming subsidiaries and assets of Liberty (LMC International), for periods prior to the June 7, 2004 spin off transaction, whereby LMI s common stock was distributed on a pro rata basis to Liberty s stockholders as a dividend, and (ii) LMI and its consolidated subsidiaries for periods following such date. Upon consummation of the spin off, LMI became the owner of the assets that comprise LMC International. The following selected financial data was derived from the audited consolidated financial statements of LMI as of December 31, 2004, 2003 and 2002 and for the each of the four years ended December 31, 2004. Data for other periods has been derived from unaudited information. This information is only a summary, and you should read it together with the accompanying consolidated financial statements.

		December 31,				
		2004 (1)	2003	2002	2001	2000
		amounts in thousands				
Summary Balance Sheet Data:						
Investment in affiliates	$	1,865,642	1,740,552	1,145,382	423,326	1,189,630
Other investments	$	838,608	450,134	187,826	916,562	134,910
Property and equipment, net	$	4,303,099	97,577	89,211	80,306	82,578
Intangible assets, net	$	2,897,953	689,026	689,046	701,935	803,514
Total assets	$	13,702,363	3,687,037	2,800,896	2,169,102	2,301,800
Debt, including current portion	$	5,018,787	54,126	35,286	338,466	101,415

Stockholders equity	$	5,226,806	3,418,568	2,708,893	2,039,593	1,907,085

		Year ended December 31,				
		2004 (1)	**2003**	**2002**	**2001**	**2000**
		amounts in thousands, except per share amounts				
Summary Statement of Operations Data:						
Revenue	$	2,644,284	108,390	100,255	139,535	125,246
Operating income (loss)	$	(313,873)	(1,455)	(39,145)	(122,623)	3,828
Share of earnings (losses) of affiliates(2)	$	38,710	13,739	(331,225)	(589,525)	(168,404)
Net earnings (loss)(3)	$	(31,758)	20,889	(568,154)	(820,355)	(129,694)
Net earnings (loss) per common share (pro forma for spin off)(4)	$	(.20)	.14	N/A	N/A	N/A

(1) Prior to January 1, 2004, the substantial majority of our operations were conducted through equity method affiliates, including UGC, J-COM and JPC. In January 2004, we completed a transaction that

increased our company s ownership in UGC and enabled us to fully exercise our voting rights with respect to our historical investment in UGC. As a result, UGC has been accounted for as a consolidated subsidiary and included in our company s consolidated financial position and results of operations since January 1, 2004. For additional information, see note 5 to the accompanying consolidated financial statements.

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

(3) Our net loss in 2002 and 2001 included our company s share of UGC s net losses of $190,216,000 and $439,843,000, respectively. Because we had no commitment to make additional capital contributions to UGC, we suspended recording our share of UGC s losses when our carrying value was reduced to zero in 2002. In addition, our net loss in 2002 included $247,386,000 of other-than-temporary declines in fair values of investments, and our net loss in 2001 included $534,962,000 of realized and unrealized losses on derivative instruments.

(4) Earnings (loss) per common share amounts were computed assuming that the shares issued in the spin off were outstanding since January 1, 2003. In addition, the weighted average share amounts for periods prior to July 26, 2004, the date that certain subscription rights were distributed to stockholders pursuant to a rights offering by our company, have been increased to give effect to the benefit derived by our company s stockholders as a result of the distribution of such subscription rights. For additional information, see note 3 to the accompanying consolidated financial statements.

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

The capitalized terms used below have been defined in the notes to the accompanying consolidated financial statements. In the following text, the terms, we, our, our company and us may refer, as the context requires, to LMC International (prior to June 7, 2004), LMI and its consolidated subsidiaries (on and subsequent to June 7, 2004) or both. Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2004.

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

Overview

We own majority and minority interests in international broadband distribution and programming companies. On June 7, 2004, Liberty completed the spin off of LMI to Liberty s shareholders. In connection with the spin off, holders of Liberty common stock on the June 1, 2004 Record Date received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned on the Record Date and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned on the Record Date. The spin off was intended to qualify as a tax-free spin off. For financial reporting purposes, the spin off is deemed to have occurred on June 1, 2004.

Following the spin off, we and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other.

Our operating subsidiaries and most significant equity method investments are set forth below:

Operating subsidiaries at December 31, 2004:

UGC
Liberty Cablevision Puerto Rico
Pramer

Our most significant subsidiary is UGC, an international broadband communications provider of video, voice, and Internet access services with operations in 13 European countries and three Latin American countries. UGC s largest operating segments are located in The Netherlands, France, Austria and Chile. At December 31, 2004, we owned approximately 423.8 million shares of UGC common stock, representing an approximate 53.6% economic interest and a 91.0% voting interest. As further described in note 5 to the accompanying consolidated financial statements, we began consolidating UGC on January 1, 2004. Prior to that date, we used the equity method to account for our investment in UGC. As discussed in greater detail in note 1 to the accompanying consolidated financial statements, we have entered into a merger agreement with UGC, whereby Liberty Global, a newly-formed holding company, would acquire all of the capital stock of our company and all of the capital stock of UGC not owned by our company.

Liberty Cablevision Puerto Rico is a wholly-owned subsidiary that owns and operates cable television systems in Puerto Rico. Pramer is a wholly-owned Argentine programming company that supplies programming services to cable television and DTH satellite distributors in Latin America and Spain.

Significant equity method investments at December 31, 2004:

Super Media
JPC

On December 28, 2004, our 45.45% ownership interest in J-COM, and a 19.78% interest in J-COM owned by Sumitomo were combined in Super Media. As a result of these transactions, we held a 69.68% noncontrolling interest in Super Media, and Super Media held a 65.23% controlling interest in J-COM at December 31, 2004. Subject to certain conditions, Sumitomo has the obligation to contribute to Super Media substantially all of its remaining 12.25% equity interest in J-COM during 2005. At December 31, 2004, we accounted for our 69.68% interest in Super Media using the equity method. As a result of a change in the corporate governance of Super Media that occurred on February 18, 2005, we will begin accounting for Super Media as a consolidated subsidiary effective January 1, 2005. J-COM owns and operates broadband businesses in Japan. For additional information, see note 6 to the accompanying consolidated financial statements.

JPC is a joint venture between Sumitomo and our company that primarily develops, manages and distributes pay television services in Japan on a platform-neutral basis through various distribution infrastructures, principally cable and DTH service providers.

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

Results of Operations

Due to the January 1, 2004 change from the equity method to the consolidation method of accounting for our investment in UGC, our historical revenue and expenses for 2004 are not comparable to prior year periods. Accordingly, in addition to a discussion of our historical results of operations, we have also included an analysis of our operating results based on the approach we use to analyze our reportable operating segments. As further described below, we believe that our operating segment discussion provides a more meaningful basis for comparing UGC s operating results than does our historical discussion.

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Changes in foreign currency exchange rates have a significant impact on our operating results as all of our operating segments, except Liberty Cablevision Puerto Rico, have functional currencies other than the U.S. dollar. Our primary exposure is currently to the euro as over 50% of our U.S dollar revenue during 2004 was derived from countries where the euro is the functional currency. In addition, our operating results are also significantly impacted by changes in the exchange rates for the Japanese yen, Chilean peso and, to a lesser degree, other local currencies in Europe.

Discussion and Analysis of Historical Operating Results

Years ended December 31, 2004 and 2003

As noted above, we began consolidating UGC effective January 1, 2004. Unless otherwise indicated in the discussion below, the significant increases in our historical revenue, expenses and other items during 2004, as compared to 2003, are primarily attributable to this change in our consolidated reporting entities.

Stock-based compensation charges

We incurred stock-based compensation expense of $142,762,000 and $4,088,000 during 2004 and 2003, respectively. The 2004 amount, which includes $116,661,000 of compensation expense related to UGC stock incentive awards, is primarily a function of higher UGC and LMI stock prices and additional vesting of stock incentive awards. As a result of adjustments to certain terms of UGC and LMI stock incentive awards that were outstanding at the time of their respective rights offerings in February 2004 and July 2004, most of the UGC and LMI stock incentive awards outstanding at December 31, 2004 are accounted for as variable-plan awards. A $50,409,000 first quarter 2004 charge was recorded by UGC to reflect a change from fixed-plan accounting to variable-plan accounting. Due to the use of variable-plan accounting by LMI and UGC, stock compensation expense with respect to LMI and Liberty options held by LMI employees and UGC stock incentive awards held by UGC employees is subject to adjustment based on the market value of the underlying common stock and vesting schedules, and ultimately on the final determination of market value when the incentive awards are exercised.

Impairment of long-lived assets

We recorded charges to reflect the impairment of long-lived assets of $69,353,000 during 2004. This amount includes a $26,000,000 charge to write-off enterprise level goodwill associated with Pramer. This charge was triggered by our third quarter 2004 determination that it was more-likely-than-not that we would sell Pramer. Other impairment charges during 2004 include $16,111,000 related to the write-down of certain of UGC s long-lived telecommunications assets in Norway and $10,955,000 related to the write-down of certain of UGC s tangible fixed assets in The Netherlands.

Restructuring and Other Charges

During 2004, UGC recorded aggregate restructuring and other charges of $29,018,000, including (i) $21,660,000 related to its operations in The Netherlands, (ii) $4,172,000 relating to certain of its other operations in Europe and (iii) $3,186,00 for certain benefits of the former Chief Executive Officer of UGC. For additional information, see note 17 to the accompanying consolidated financial statements.

Interest and dividend income

Interest and dividend income increased $40,733,000 during 2004, as compared to 2003. The increase includes $23,823,000 that is attributable to the January 1, 2004 consolidation of UGC. The remaining increase is primarily attributable to dividend income on the ABC Family preferred stock, a 99.9% interest in which was contributed by Liberty to our company in connection with the spin off.

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Share of earnings of affiliates, net

Our share of earnings of affiliates increased $24,971,000 during 2004, as compared to 2003. Such increase primarily is attributable to increases in our share of the net earnings of J-COM and, to a lesser extent, JPC. Such increases were partially offset by write-downs of our investments in Torneos y Competencias S.A., (Torneos) and another programming entity that operates in Latin America to reflect other-than-temporary declines in the fair values of these investments. The increase in J-COM s net earnings is primarily attributable to revenue growth due to increases in the subscribers to J-COM s telephone, Internet and cable television services. For additional discussion of J-COM s operating results, see Discussion and Analysis of Reportable Segments below. During 2003, we did not recognize our share of UGC s losses as our investment in UGC previously had been reduced to zero and we had no commitment to make additional investments in UGC. For additional information, see note 6 to the accompanying consolidated financial statements.

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

The details of our realized and unrealized gains (losses) on derivative instruments are as follows:

		Year ended December 31,	
		2004	**2003**
		amounts in thousands	
Foreign exchange derivatives	$	196	(22,626)
Total return debt swaps		2,384	37,804
Cross-currency and interest rate swaps		(43,779)	
Interest rate caps		(20,318)	
Variable forward transaction		1,013	
Call agreements on LMI Series A common stock		1,713	
Other		3,844	(2,416)
	$	(54,947)	12,762

For additional information concerning our derivative instruments, see note 8 to the accompanying consolidated financial statements.

Foreign currency transaction gains (losses), net

The details of our foreign currency transaction gains (losses) are as follows:

		Year ended December 31,	
		2004	**2003**
		amounts in thousands	
Repayment of yen denominated shareholder loans(a)	$	56,061	
U.S. dollar debt issued by UGC s European subsidiaries		35,684	
Intercompany notes denominated in a currency other than the entities functional currency		46,349	
U.S. dollar debt issued and cash held by VTR		3,929	
Euro denominated debt issued by UGC		(77,255)	
Euro denominated cash held by UGC		26,192	
Pramer (primarily U.S. dollar denominated debt)		(730)	2,461
Telewest bonds		333	1,750

Yen denominated cash held by LMI		7,408	
Other		(5,666)	1,201
	$	92,305	5,412

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(a) On December 21, 2004, we received cash proceeds of ¥43,809 million ($420,188,000 at December 21, 2004) in connection with the repayment by J-COM and another affiliate of all principal and interest due to our company pursuant to then outstanding shareholder loans. In connection with this transaction, we recognized in our statement of operations the foreign currency translation gains that previously had been reflected in accumulated other comprehensive earnings.

Through December 31, 2004, we have incurred cumulative translation losses with respect to our equity method investments in Torneos, an Argentine programming company, and Metrópolis, a Chilean cable company, of $86,446,000 and $30,338,000, respectively. Such amounts are included in other comprehensive earnings, net of taxes, in our December 31, 2004 consolidated balance sheet. Upon any disposition of all or a part of these investments, we would recognize the pro rata share of such losses in our statements of operations. Neither investment was deemed to be held for sale at December 31, 2004.

Gains on exchanges of investment securities

During 2004, we recognized pre-tax gains aggregating $178,818,000 on exchanges of investment securities, including a $168,301,000 gain that is attributable to the July 19, 2004 conversion of our investment in Telewest Communications plc Senior Notes and Senior Discount Notes into 18,417,883 shares or approximately 7.5% of the issued and outstanding common stock of Telewest. This gain represents the excess of the fair value of the Telewest common stock received over our cost basis in the Senior Notes and Senior Discount Notes.

Other-than-temporary declines in fair values of investments

We recognized other-than-temporary declines in fair values of investments of $18,542,000 and $6,884,000 during 2004 and 2003, respectively. The 2004 amount includes a $12,429,000 charge recognized during the third quarter of 2004 in connection with our decision to dispose of all remaining Telewest shares during the fourth quarter of 2004.

Gains on extinguishment of debt

During 2004, we recognized gains on extinguishment of debt of $35,787,000. Such gains included a $31,916,000 gain recognized by UGC in connection with the first quarter 2004 consummation of UPC Polska s plan of reorganization and emergence from U.S. bankruptcy proceedings. For additional information, see note 10 to the accompanying consolidated financial statements.

Gains (losses) on disposition of investments, net

We recognized net gains on dispositions of investments of $43,714,000 and $3,759,000 during 2004 and 2003, respectively. The 2004 amount includes (i) a $37,174,000 gain on the sale of News Corp. Class A common stock, (ii) a $25,256,000 gain in connection with the contribution to JPC of certain indirect interests in an equity method affiliate, (iii) a $16,407,000 net loss on the disposition of 18,417,883 Telewest shares, (iv) a $10,000,000 loss on the sale of Sky Multi-Country, and a (v) a $6,878,000 gain associated with the redemption of our investment in certain bonds. For additional information, see notes 6 and 7 to the accompanying consolidated financial statements.

Income tax benefit (expense)

We recognized income tax benefit (expense) of $17,449,000 and ($27,975,000) during 2004 and 2003, respectively. The 2004 tax benefit differs from the expected tax benefit of $80,110,000 (based on the U.S. federal 35% income tax rate) due primarily to (i) the reduction of UGC s deferred tax assets as a result of tax rate reductions in The Netherlands, France, the Czech Republic, and Austria; (ii) the impact of certain permanent differences between the financial and tax accounting treatment of interest and other items associated with cross jurisdictional intercompany loans and investments; (iii) the realization of taxable foreign currency gains in certain jurisdictions not recognized for financial reporting purposes, (iv) a net increase in

UGC s valuation allowance associated with reserves established against currently arising tax loss carryforwards that were only partially offset by the release of valuation allowances in other jurisdictions. Certain of the released valuation allowances were related to deferred tax assets that were recorded in purchase accounting and accordingly, such valuation allowances were reversed against goodwill. The items mentioned above were partially offset by (i) the reversal of a deferred tax liability originally recorded for a gain on extinguishment of debt in a 2002 merger transaction as a result of the emergence of Old UGC from bankruptcy in November 2004; (ii) the recognition of tax losses or deferred tax assets for the sale of investments or subsidiaries and (iii) a deferred tax benefit that we recorded during the third quarter of 2004 to reflect a reduction in the estimated blended state tax rate used to compute our net deferred tax liabilities. Such reduction represents a change in estimate that resulted from our re-evaluation of this rate upon our becoming a separate tax paying entity in connection with the spin off. The difference between the actual tax expense and the expected tax expense of $17,111,000 (based on the U.S. Federal 35% income tax rate) during 2003 is primarily attributable to foreign, state and local taxes**.** For additional details, see note 11 to the accompanying consolidated financial statements.

Years ended December 31, 2003 and 2002

Revenue

Revenue increased $8,135,000 or 8.1% during 2003, as compared to 2002. The increase was due primarily to a $7,495,000 increase in revenue generated by Liberty Cablevision Puerto Rico. The increase in the revenue of Liberty Cablevision Puerto Rico is due primarily to a $3,685,000 increase in revenue from cable television services, a $1,772,000 increase in broadband Internet revenue and a $1,255,000 increase in equipment rental income. The increase in revenue from cable television services is due primarily to the net effect of (i) increases associated with higher rates and an increase in the number of digital cable subscribers and (ii) decreases associated with an approximate 1% decrease in the number of subscribers to basic cable services. The increase in Liberty Cablevision Puerto Rico s equipment rental revenue is due primarily to the increase in digital cable subscribers.

Operating costs and expenses

Operating costs and expenses increased $6,375,000 or 14.5% during 2003, as compared to 2002. The increase was due primarily to increases in the operating costs and expenses of both Liberty Cablevision Puerto Rico and Pramer. Higher programming rates and an increase in the number of subscribers receiving the digital programming tier of service contributed to an increase in programming costs that accounted for most of the $4,103,000 increase in Liberty Cablevision Puerto Rico s operating expenses. The increase in Pramer s operating costs and expenses is attributable to individually insignificant items.

Selling, general and administrative (SG&A) expenses

SG&A expenses decreased $1,932,000 or 4.6% during 2003, as compared to 2002. The decrease is due primarily to a $4,596,000 decrease in SG&A expenses incurred by Pramer, offset by a $2,584,000 increase in SG&A expenses incurred by Liberty Cablevision Puerto Rico. The decrease in Pramer s SG&A expenses is due primarily to a decrease in bad debt expense as Pramer experienced unusually high bad debt expense during 2002 as a result of poor economic conditions in Argentina and the devaluation of the Argentine peso. The increase in Liberty Cablevision Puerto Rico s SG&A expense is due to increases in salaries and related personnel costs and other individually insignificant items. The increase in salaries and personnel costs is primarily related to increased headcount required to support Liberty Cablevision Puerto Rico s launch of its broadband Internet service.

Stock-based compensation charges (credits)

We had stock-based compensation charges of $4,088,000 in 2003 and credits of $5,815,000 in 2002. The stock compensation amounts reflected in our statements of operations during these periods were based on stock appreciation rights held by Liberty employees who performed services for our company. The stock

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compensation amounts recorded during 2003 and 2002 are primarily a function of the market price of Liberty common stock and the vesting of the awards.

Depreciation and amortization

Depreciation and amortization increased $2,027,000 or 15.5% during 2003, as compared to 2002. The increase in depreciation and amortization is primarily due to an increase in the depreciable tangible assets of Liberty Cablevision Puerto Rico as a result of capital additions.

Impairment of long-lived assets

We recorded charges to reflect the impairment of long-lived assets of $45,928,000 during 2002, including charges of $39,000,000 and $5,000,000 to reflect the write-off of enterprise goodwill associated with our investments in Metrópolis and Torneos, respectively. We recorded the Metrópolis impairment in connection with an evaluation of the carrying value of our investment in Metrópolis as more fully described below. The Torneos impairment resulted primarily from the devaluation of the Argentine peso.

Interest and dividend income

We recognized interest and dividend income of $24,874,000 and $25,883,000 during 2003 and 2002, respectively. The $1,009,000 decrease during 2003 is primarily attributable to a decrease in interest income from the Belmarken Loan that was largely offset by increases in (i) interest income earned on shareholder loans to J-COM and (ii) other sources of interest income. The Belmarken Loan represented debt of a UGC subsidiary, and we contributed the Belmarken Loan to UGC in connection with the 2002 UGC Transaction.

Share of earnings (losses) of affiliates, net

A summary of our share of earnings (losses) of affiliates, net, is included below:

		Year ended December 31,	
		2003	**2002**
		amounts in thousands	
J-COM	$	20,341	(21,595)
JPC		11,775	5,801
Metrópolis		(8,291)	(80,394)
UGC			(190,216)
Other		(10,086)	(44,821)
	$	13,739	(331,225)

Included in share of losses in 2003 and 2002 are adjustments for other-than-temporary declines in value aggregating $12,616,000 and $72,030,000, respectively. The 2002 amount includes $66,555,000 associated with Metrópolis. The Metrópolis impairment was recorded as a result of a decline in value associated with increased competition and subscriber losses.

As noted above, we did not recognize our share of UGC s losses during 2003 as our investment in UGC previously had been reduced to zero and we had no commitment to make additional investments in UGC.

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

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

	Year ended December 31,	
	2003	2002
	amounts in thousands	
Foreign exchange derivatives	$ (22,626)	(11,239)
Total return debt swaps	37,804	(1,088)
Other	(2,416)	(4,378)
	$ 12,762	(16,705)

Foreign currency transaction gains (losses), net

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

	Year ended December 31,	
	2003	2002
	amounts in thousands	
Pramer (primarily U.S. dollar denominated debt) (a)	$ 2,461	(12,290)
Telewest bonds	1,750	3,603
Other	1,201	420
	$ 5,412	(8,267)

(a) The foreign currency losses experienced by Pramer during 2002 are attributable to the devaluation of the Argentine peso.

Gains on exchanges of investment securities

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

Other-than-temporary declines in fair values of investments

During 2003 and 2002, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based on quoted market prices and discounted cash flow analysis. These adjustments are reflected as other-than-temporary declines in fair value of investments in the consolidated statements of operations. The details of our other-than-temporary declines in fair value of investments are as follows:

	Year ended December 31,	
	2003	2002
	amounts in thousands	
Sky Latin America	$ 6,884	105,250
Telewest bonds		141,271
Other		865
	$ 6,884	247,386

The impairment of our investment in Sky Latin America was primarily a function of economic conditions in the countries in which Sky Latin America operates. The amount of the Sky Latin America impairment was based on discounted cash flow analysis. The carrying value of the Telewest bonds was reduced based on quoted market prices at the balance sheet date.

Income tax benefit (expense)

We recognized income tax benefit (expense) of ($27,975,000) and $166,121,000 during 2003 and 2002, respectively. The 2003 tax expense differs from the expected tax expense of $17,111,000 (based on the U.S. federal 35% income tax rate) primarily due to foreign, state and local taxes. The 2002 tax expense differs from the expected tax benefit of $173,593,000 (based on the U.S. federal 35% income tax rate) as the effect of state, local and foreign tax benefits was more than offset by the impact of certain non-deductible expenses and other individually insignificant items. For additional information, see note 11 to the accompanying consolidated financial statements.

Cumulative effect of accounting change, net of taxes

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

Discussion and Analysis of Reportable Segments

For purposes of evaluating the performance of our operating segments, we compare and analyze 100% of the revenue and operating cash flow of our reportable operating segments regardless of whether we use the consolidation or equity method to account for such reportable segments. Accordingly, in the following tables, we have presented 100% of the revenue, operating expenses, SG&A expenses and operating cash flow of our reportable segments, notwithstanding the fact that we used the equity method to account for (i) UGC during the 2003 and 2002 periods and (ii) our equity method investment in J-COM for all periods presented. The revenue, operating expenses, SG&A expenses and operating cash flow of UGC for the 2003 and 2002 periods and J-COM for all periods presented are then eliminated to arrive at the reported amounts. It should be noted, however, that this presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate. For additional information concerning our operating segments, including a discussion of our performance measures and a reconciliation of operating cash flow to pre-tax earnings (loss), see note 20 to the accompanying consolidated financial statements.

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The tables presented below in this section provide a separate analysis of each of the line items that comprise operating cash flow (revenue, operating expenses and SG&A expenses) as well as an analysis of operating cash flow by operating segment for 2004 compared to 2003 and 2003 compared to 2002. In each case, the tables present (i) the amounts reported by each of our operating segments for the comparative periods, (ii) the U.S. dollar change and percentage change from period to period, and (iii) the U.S. dollar equivalent of the change and the percentage change from period to period, after removing foreign currency effects (FX). The comparisons that exclude FX assume that exchange rates remained constant during the periods that are included in each table.

UGC Broadband France acquired Noos on July 1, 2004. Accordingly, increases in the amounts presented for UGC Broadband France during 2004, as compared to the corresponding prior year periods, are primarily attributable to the Noos acquisition. In addition, UGC has included Chorus Communications Limited (Chorus), a wholly owned subsidiary of PHL and a cable operator in Ireland, in its consolidated financial statements since June 1, 2004. Accordingly, increases in the amounts presented for UGC Broadband Other Europe during 2004, as compared to 2003, are partially attributable to the operations of Chorus since June 1, 2004. In addition, the third quarter 2002 deconsolidation of UGC s broadband operations in Germany factors into the 2003 to 2002 comparisons. For additional information concerning the Noos acquisition and the PHL transactions, see note 5 to the accompanying consolidated financial statements.

Revenue of our Reportable Segments

Revenue Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 716,932	592,223	124,709	21.1%	60,999	10.3%
UGC Broadband France	312,792	113,946	198,846	174.5%	187,462	164.5%
UGC Broadband Austria	299,874	260,162	39,712	15.3%	13,268	5.1%
UGC Broadband Other Europe	752,900	561,737	191,163	34.0%	134,926	24.0%
UGC Broadband Total Europe	2,082,498	1,528,068	554,430	36.3%	396,655	26.0%
UGC Broadband Chile (VTR)	299,951	229,835	70,116	30.5%	36,314	15.8%
J-COM	1,504,709	1,233,492	271,217	22.0%	156,706	12.7%
Corporate and all other	400,818	369,072	31,746	8.6%	(3,835)	(1.0%)
Elimination of intercompany transactions	(138,983)	(127,055)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(1,504,709)	(3,125,022)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 2,644,284	108,390	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband The Netherlands

UGC Broadband The Netherlands revenue increased 21.1% in 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 10.3%. The local currency increase is primarily attributable to an increase in the average monthly revenue per subscriber, due primarily to higher average rates for cable television services and the increased penetration of broadband Internet services. These factors were somewhat offset by reduced tariffs for telephone services as lower outbound interconnect rates were passed through to the customer to maintain the product at a competitive level in the market. The average number of subscribers in 2004 was slightly higher than the comparable number in 2003 as increases in broadband Internet and telephone subscribers were largely offset by a decline in cable television subscribers.

UGC previously announced that it would increase rates for analog video customers in The Netherlands towards a standard rate, effective January 1, 2004. As previously reported, UGC has been enjoined from, or has voluntarily waived, implementing these rate increases in certain cities within The Netherlands. Thus far, UGC has reached agreement with most of these municipalities, including the municipality of Amsterdam, allowing it to increase its cable tariffs to a standard rate of 15.20. UGC is continuing to negotiate with the other municipalities.

UGC Broadband France

UGC Broadband France s revenue in 2004 includes $183,930,000 generated by Noos. Excluding the increase associated with the Noos acquisition and the $11,384,000 increase associated with foreign exchange fluctuations, UGC Broadband France s revenue increased $3,532,000 or 3.1% in 2004, as compared to 2003. This 3.1% increase is primarily attributable to an increase in the average number of subscribers in 2004, as compared to 2003. Cable television, broadband Internet and telephone services all contributed to this subscriber increase. A decrease in the average monthly revenue per telephone subscriber partially offset the positive impact of the subscriber increases. The lower telephone revenue is attributable to lower tariffs from telephone services, as lower outbound interconnect rates were passed through to the customer to maintain the service at a competitive level in the market, as well as reduced outbound telephone traffic as more customers migrate from dial-up Internet access to broadband Internet access and migrate from fixed-line telephone usage to cellular phone usage.

UGC Broadband Austria

UGC Broadband Austria s revenue increased 15.3% in 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 5.1%. The local currency increase is primarily attributable to growth in the average number of subscribers in 2004, as compared to 2003. This subscriber growth is primarily attributable to an increase in the average number of subscribers to broadband Internet service.

UGC Broadband Other Europe

UGC Broadband Other Europe includes broadband operations in Norway, Sweden, Belgium, Ireland, Hungary, Poland, Czech Republic, Slovak Republic, Slovenia and Romania. UGC Broadband Other Europe s revenue in 2004 includes $48,953,000 of revenue generated by Chorus. Excluding the increase associated with the 2004 Chorus acquisition and the $56,237,000 increase associated with foreign exchange fluctuations, UGC Broadband Other Europe s revenue increased $85,973,000 or 15.3% during 2004, as compared to 2003. The 15.3% increase is due primarily to increases in the average monthly revenue per subscriber across all of the UGC Broadband Other Europe countries. An overall increase in the average number of cable television and broadband Internet subscribers in 2004, as compared to 2003, also contributed to the increase.

UGC Broadband Chile (VTR)

UGC Broadband Chile s revenue increased 30.5% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 15.8%. This 15.8% increase is due primarily to growth in the average number of subscribers to cable television, broadband Internet and telephone services during 2004, as compared to 2003. This subscriber growth is due primarily to improved direct sales, mass marketing initiatives and lower subscriber churn. UGC Broadband Chile s average monthly revenue per subscriber remained relatively flat from period to period due primarily to significant competition in UGC Broadband Chile s markets.

J-COM

J-COM s revenue increased 22.0% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 12.7%. The local currency increase is primarily attributable to a significant increase in the average number of subscribers in 2004, as compared to 2003. Most of this subscriber increase is attributable to growth within J-COM s telephone and broadband Internet services. An increase in average revenue per household per month also contributed to the increase in local currency revenue. The increase in average revenue per household per month is primarily attributable to the full-year effect of cable television service price increases implemented during 2003 and increased penetration of J-COM s higher-priced broadband Internet service. These factors were somewhat offset by a reduction in the price for one of J-COM s lower-priced broadband Internet services and a decrease in customer call volumes for J-COM s telephone service.

Revenue Years ended December 31, 2003 and 2002

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 592,223	459,044	133,179	29.0%	35,346	7.7%
UGC Broadband France	113,946	92,441	21,505	23.3%	2,681	2.9%
UGC Broadband Austria	260,162	198,189	61,973	31.3%	19,026	9.6%
UGC Broadband Other Europe	561,737	461,149	100,588	21.8%	34,034	7.4%
UGC Broadband Total Europe	1,528,068	1,210,823	317,245	26.2%	91,087	7.5%
UGC Broadband Chile (VTR)	229,835	186,426	43,409	23.3%	42,319	22.7%
J-COM	1,233,492	930,736	302,756	32.5%	211,703	22.7%
Corporate and all other	369,072	326,722	42,350	13.0%	(8,448)	(2.6)%
Elimination of intercompany transactions	(127,055)	(108,695)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(3,125,022)	(2,445,757)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 108,390	100,255	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband The Netherlands

UGC Broadband The Netherlands revenue increased 29.0% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 7.7%. The local currency increase is due primarily to rate increases for cable television services. The average number of subscribers in 2003 increased slightly over the comparable number in 2002 as increases in broadband Internet subscribers were largely offset by decreases in cable television and telephone subscribers.

UGC Broadband France

UGC Broadband France s revenue increased 23.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, revenue increased 2.9% in 2003, as compared to 2002. This local currency increase is primarily attributable to increases in the average number of subscribers to cable television, and to a lesser extent, broadband Internet and telephone services in 2003, as compared to 2002. UGC Broadband France s average monthly revenue per subscriber declined slightly as the positive impact of increased penetration of broadband Internet services was more than offset by lower telephony revenue and an increase in the proportion of subscribers to lower-priced tiers within the total number of subscribers for cable television services.

UGC Broadband Austria

UGC Broadband Austria s revenue increased 31.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 9.6%. The local currency increase is due primarily to increases in the average number of broadband Internet and telephone subscribers during 2003, as compared to

2002. An increase in the average monthly revenue per subscriber, due primarily to the increased penetration of broadband Internet services, also contributed to the increase.

UGC Broadband Other Europe

UGC Broadband Other Europe s revenue increased 21.8% during 2003, as compared to 2002. Excluding the $28,069,000 decrease associated with the third quarter 2002 deconsolidation of UGC s broadband operations in Germany and the $66,554,000 increase associated with foreign exchange fluctuations, UGC Broadband Other Europe s revenue increased $62,103,000 or 14.3% in 2003, as compared to 2002. The local currency revenue increase is attributable to increases in average monthly revenue per subscriber across all of the UGC Broadband Other Europe countries. An overall increase in the average number of cable television and broadband Internet subscribers in 2004, as compared to 2003, also contributed to the increase.

UGC Broadband Chile (VTR)

UGC Broadband Chile s revenue increased 23.3% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 22.7%. The local currency increase was primarily due to an increase in the average number of subscribers in 2003, as compared to 2002. The subscriber increase is attributable to the increased effectiveness of UGC Broadband Chile s direct sales force and mass marketing initiatives for its broadband Internet services, and to increased premium tier customers. In addition, UGC Broadband Chile s average monthly revenue per subscriber was favorably impacted by a decrease in promotions and price discounts.

J-COM

J-COM s revenue increased 32.5% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was 22.7%. The local currency increases are primarily attributable to a significant increase in the average number of subscribers in 2003, as compared to 2002. Most of this subscriber increase is attributable to growth within J-COM s telephone and broadband Internet services. An increase in average revenue per household per month during 2003, as compared to 2002, also contributed to the increase in local currency revenue. The increases in average revenue per household per month is primarily attributable to the effect of cable television service price increases and increased penetration of J-COM s higher-priced broadband Internet service. These factors were somewhat offset by a reduction in the prices for J-COM s lower-priced broadband Internet services and a decrease in customer call volumes for J-COM s telephone service.

Operating Expenses of our Reportable Segments

Operating expenses Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 243,975	229,653	14,322	6.2%	(8,038)	(3.5)%
UGC Broadband France	168,634	67,160	101,474	151.1%	94,427	140.6%
UGC Broadband Austria	136,675	118,457	18,218	15.4%	5,686	4.8%
UGC Broadband Other Europe	329,669	259,045	70,624	27.3%	44,952	17.4%
UGC Broadband Total Europe	878,953	674,315	204,638	30.3%	137,027	20.3%
UGC Broadband Chile (VTR)	116,131	96,965	19,166	19.8%	5,818	6.0%
J-COM	502,488	429,911	72,577	16.9%	34,243	8.0%
Corporate and all other	201,819	181,581	20,238	11.1%	5,909	3.3%
Elimination of intercompany transactions	(128,611)	(117,423)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(502,488)	(1,215,043)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 1,068,292	50,306	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

General

Operating expenses include programming, network operations and other direct costs. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of the expansion of service offerings and the potential for price increases. Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

UGC Broadband Total Europe

Operating expenses for UGC Broadband Total Europe increased 30.3% in 2004, as compared to 2003. Operating expenses for UGC Broadband France and UGC Broadband Other Europe include $92,076,000 and $11,451,000 incurred by Noos and Chorus, respectively, both of which were acquired in 2004. Excluding the $103,527,000 increase associated with the 2004 Noos and Chorus acquisitions and the $67,611,000 increase associated with foreign exchange rate fluctuations, UGC Broadband Total Europe s operating expenses increased $33,500,000 or 5.0% in 2004, as compared to 2003, primarily due to the net effect of the following factors:

(i) an increase in customer operation expenses as a result of higher numbers of new and reconnecting subscribers during 2004, as compared to 2003. This higher activity level required UGC to hire additional staff and use outsourced contractors;

(ii) an increase in direct programming costs related to subscriber growth and, in certain markets, an increase in channels on the analog and digital platforms;

(iii) a decrease due to net cost reductions across network operations, customer care and billing and collection activities. These reductions were due to improved cost controls across all aspects of the business, including more effective procurement of support services, lower billing and collections charges, with bad debt charges in particular reduced in The Netherlands, and the increasing operational leverage of the business;

(iv) an increase in intercompany costs for broadband Internet services under the revenue sharing agreement between UPC Broadband and chellomedia;

(v) a decrease related to reduced telephone direct costs in 2004, as compared to 2003, primarily due to decreases in outbound interconnect rates;

(vi) an increase due to annual wage increases; and

(vii) a decrease due to cost savings in The Netherlands resulting from a restructuring plan implemented in the second quarter of 2004 whereby the management structure was changed from a three-region model to a centralized management organization.

UGC Broadband Chile (VTR)

UGC Broadband Chile s operating expenses increased 19.8% for 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 6.0%. The local currency increase primarily is due to increases in (i) domestic and international access charges, (ii) programming costs, and (iii) the cost of maintenance and technical services. Such increased costs were largely driven by subscriber growth.

J-COM

J-COM operating expenses increased 16.9% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 8.0%. These local currency increases primarily are due to an increase in programming costs as a result of subscriber growth and improved service offerings. Increases in network maintenance and technical support costs associated with the expansion of J-COM s network also contributed to the increases.

Operating expenses Years ended December 31, 2003 and 2002

An analysis of the operating expenses of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 229,653	251,614	(21,961)	(8.7)%	(58,878)	(23.4)%
UGC Broadband France	67,160	72,120	(4,960)	(6.9)%	(15,794)	(21.9)%
UGC Broadband Austria	118,457	100,849	17,608	17.5%	(1,412)	(1.4)%
UGC Broadband Other Europe	259,045	236,685	22,360	9.4%	(6,750)	(2.9)%
UGC Broadband Total Europe	674,315	661,268	13,047	2.0%	(82,834)	(12.5)%
UGC Broadband Chile (VTR)	96,965	93,243	3,722	4.0%	3,730	4.0%
J-COM	429,911	366,828	63,083	17.2%	31,348	8.5%
Corporate and all other	181,581	175,639	5,942	3.4%	(19,118)	(10.9)%
Elimination of intercompany transactions	(117,423)	(96,762)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(1,215,043)	(1,156,285)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 50,306	43,931	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband Total Europe

Operating expenses for UGC Broadband Total Europe increased 2.0% in 2003, as compared to 2002. Excluding the $14,332,000 decrease associated with the third quarter 2002 deconsolidation of UGC s Broadband operations in Germany and the $95,881,000 increase associated with foreign exchange rate fluctuations, UGC Broadband Total Europe s operating expenses decreased $68,502,000 or 10.4% in 2003, as compared to 2002, primarily due to:

(i) a decrease associated with improved cost control across all aspects of the business, including the benefit of restructuring activities, other cost cutting initiatives, continued improvements in processes and systems and organizational rationalization. In addition, more effective procurement processes resulted in improved terms from major vendors; and

(ii) a decrease in billing and collection charges, reflecting improved receivables management and lower bad debt charges, particularly in The Netherlands and France, where reduced bad debt charges accounted for over 75% of the total reduction;

(iii) a decrease in telephone outbound interconnect costs, which offset an increase in intercompany cost for broadband Internet services under the revenue sharing agreement between UPC Broadband and chellomedia;

(iv) a decrease in programming costs resulting from a year over year reduction in the DTH business, due to the closure of an uplink facility, which was only partially offset by the impact of subscriber growth.

UGC Broadband Chile (VTR)

Operating expenses for UGC Broadband Chile increased 4.0% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increase was also 4.0%. This increase is primarily due to increases in variable costs such as domestic and international access charges, programming costs and maintenance and technical service costs. Such increased costs were largely driven by subscriber growth.

J-COM

J-COM operating expenses increased 17.2% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, such increases were 8.5%. The local currency increase primarily is due to an increase in programming costs as a result of video subscriber growth, and to an increase in interconnection charges paid to third parties associated with an increase in telephone revenue. Increases in network maintenance and technical support costs associated with the expansion of J-COM s network also contributed to the increase.

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SG&A Expenses of our Reportable Segments

SG&A expenses Years ended December 31, 2004 and 2003

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	**2003**	**$**	**%**	**$**	**%**
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 111,692	95,495	16,197	17.0%	6,016	6.3%
UGC Broadband France	90,468	32,866	57,602	175.3%	54,257	165.1%
UGC Broadband Austria	51,249	43,427	7,822	18.0%	3,344	7.7%
UGC Broadband Other Europe	141,833	99,197	42,636	43.0%	32,448	32.7%
UGC Broadband Total Europe	395,242	270,985	124,257	45.9%	96,065	35.5%
UGC Broadband Chile (VTR)	75,068	62,919	12,149	19.3%	3,775	6.0%
J-COM	412,624	375,263	37,361	10.0%	6,009	1.6%
Corporate and all other	227,906	193,581	34,325	17.7%	10,238	5.3%
Elimination of intercompany transactions	(10,372)	(9,632)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(412,624)	(852,779)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 687,844	40,337	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

General

SG&A expenses include human resources, information technology, general services, management, finance, legal and marketing costs and other general expenses.

UGC Broadband Total Europe

SG&A expenses for UGC Broadband Total Europe increased 45.9% in 2004, as compared to 2003. SG&A expenses for UGC Broadband France and UGC Broadband Other Europe include $51,069,000 and $25,707,000 incurred by Noos and Chorus, respectively, both of which were acquired in 2004. Excluding the $76,776,000 increase associated with the 2004 Noos and Chorus acquisitions and the $28,192,000 increase due to exchange rate fluctuations, UGC Broadband Total Europe s SG&A expenses increased $19,289,000, or 7.1% in 2004, as compared to 2003, primarily due to:

(i) an increase in marketing expenditures to support subscriber growth and new digital programming services;

(ii) annual wage increases; and

(iii) increased consulting and other information technology support costs associated with the implementation of new customer care systems in several countries and a subscriber management system in Austria.

These increases were partly offset by continuing cost control across all aspects of the business and cost savings resulting from UGC Broadband The Netherlands restructuring that was implemented during the second quarter of 2004.

UGC Broadband Chile (VTR)

UGC Broadband Chile s SG&A expenses increased 19.3% during 2004, as compared to 2003. Excluding the effects of foreign exchange fluctuations, such increase was 6.0%. The local currency increase primarily is due to (i) an increase in commissions and marketing costs as a result of subscriber growth and increased

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competition, (ii) annual wage increases, and (iii) higher legal, accounting and other professional advisory fees due in part to requirements of the Sarbanes-Oxley Act of 2002.

J-COM

J-COM SG&A expenses increased 10% during 2004 as compared to 2003. Excluding the effects of foreign exchange fluctuations, J-COM SG&A expenses increased 1.6% during 2004 as compared to 2003. This local currency increase primarily is attributable to the net effect of (i) increased labor and other overhead costs associated primarily with increases in J-COM s subscribers, and (ii) reduced marketing personnel and advertising and promotion expenses.

SG&A expenses Years ended December 31, 2003 and 2002

An analysis of the SG&A expenses of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 95,495	88,101	7,394	8.4%	(9,691)	(11.0)%
UGC Broadband France	32,866	30,767	2,099	6.8%	(3,538)	(11.5)%
UGC Broadband Austria	43,427	32,678	10,749	32.9%	2,680	8.2%
UGC Broadband Other Europe	99,197	92,582	6,615	7.1%	(2,381)	(2.6)%
UGC Broadband Total Europe	270,985	244,128	26,857	11.0%	(12,930)	(5.3)%
UGC Broadband Chile (VTR)	62,919	51,224	11,695	22.8%	11,321	22.1%
J-COM	375,263	352,762	22,501	6.4%	(5,380)	(1.5)%
Corporate and all other	193,581	188,040	5,541	2.9%	(19,513)	(10.4)%
Elimination of intercompany transactions	(9,632)	(11,933)	N.M.	N.M.	N.M.	N.M.
Elimination of equity affiliates	(852,779)	(781,952)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 40,337	42,269	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

UGC Broadband Total Europe

SG&A expenses for UGC Broadband Total Europe increased 11.0% in 2003, as compared to 2002. Excluding the $1,175,000 decrease associated with the third quarter 2002 deconsolidation of UGC s broadband operations in Germany and the $39,787,000 increase associated with exchange rate fluctuations, UGC Broadband Total Europe s SG&A expenses decreased $11,755,000 or 4.8% in 2003, as compared to 2002, primarily due to improved operational cost control resulting from restructuring activities and other cost cutting measures. These cost reductions were partially offset by an increase in marketing expenditures to support subscriber growth.

UGC Broadband Chile (VTR)

SG&A expenses for UGC Broadband Chile increased 22.8% in 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, SG&A expenses increased 22.1%, primarily due to (i) an increase in commissions and marketing costs as a result of subscriber growth and increased competition, (ii) annual wage increases and (iii) higher professional advisory fees.

J-COM

J-COM SG&A expenses increased 6.4% during 2003, as compared to 2002. Excluding the effects of foreign exchange fluctuations, J-COM SG&A expenses decreased 1.5% during 2003 as compared to 2002. This decrease was attributable primarily to reduced costs for marketing personnel and advertising and promotion expenses associated with customer acquisitions, expense reductions resulting from scale efficiencies and to continued management focus on limiting expenses. The decrease was partially offset by an increase in labor costs at J-COM s call centers as a result of the provision of customer support to a larger subscriber base.

Operating Cash Flow of our Reportable Segments

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance and to decide how to allocate resources to segments. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding depreciation and amortization, impairment of long-lived assets, restructuring and other charges and stock-based compensation). We believe operating cash flow is meaningful because it provides investors a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that is used by our internal decision makers. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to other available GAAP measures because it represents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons and benchmarking between segments in the different countries in which we operate and identify strategies to improve operating performance. For example, our internal decision makers believe that the inclusion of impairment and restructuring charges within operating cash flow distorts the ability to efficiently assess and view the core operating trends in our segments. In addition, our internal decision makers believe our measure of operating cash flow is important because analysts and investors use it to compare our performance to other companies in our industry. For a reconciliation of total consolidated operating cash flow to our consolidated pre-tax earnings (loss), see note 20 to the accompanying consolidated financial statements. Investors should view operating cash flow as a supplement to, and not a substitute for, operating income, net income, cash flow from operating activities and other GAAP measures of income as a measure of operating performance.

Operating Cash Flow Years ended December 31, 2004 and 2003

An analysis of the operating cash flow of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2004	2003	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband The Netherlands	$ 361,265	267,075	94,190	35.3%	63,021	23.6%
UGC Broadband France	53,690	13,920	39,770	285.7%	38,778	278.6%
UGC Broadband Austria	111,950	98,278	13,672	13.9%	4,238	4.3%
UGC Broadband Other Europe	281,398	203,495	77,903	38.3%	57,526	28.3%
UGC Broadband Total Europe	808,303	582,768	225,535	38.7%	163,563	28.1%
UGC Broadband Chile (VTR)	108,752	69,951	38,801	55.5%	26,721	38.2%
J-COM	589,597	428,318	161,279	37.7%	116,454	27.2%
Corporate and all other	(28,907)	(6,090)	(22,817)	374.7%	(19,982)	328.1%
Elimination of equity affiliates	(589,597)	(1,057,200)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 888,148	17,747	N.M.	N.M.	N.M.	N.M.

N.M. Not Meaningful

As set forth in the above table, our consolidated operating cash flow for 2004 was $888,148,000. If exchange rates had remained unchanged from 2003 levels, our operating cash flow would have been $816,931,000 in 2004. For explanations of the factors contributing to the changes in operating cash flow, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments.

Operating Cash Flow — Years ended December 31, 2003 and 2002

An analysis of the operating cash flow of our reportable segments for the indicated periods is set forth below:

	Year ended December 31,		Increase (decrease)		Increase (decrease) excluding FX	
	2003	2002	$	%	$	%
	amounts in thousands, except % amounts					
UGC Broadband — The Netherlands	$ 267,075	119,329	147,746	123.8%	103,915	87.1%
UGC Broadband — France	13,920	(10,446)	24,366	(233.3)%	22,013	(210.7)%
UGC Broadband — Austria	98,278	64,662	33,616	52.0%	17,758	27.5%
UGC Broadband — Other Europe	203,495	131,882	71,613	54.3%	43,165	32.7%
UGC Broadband — Total Europe	582,768	305,427	277,341	90.8%	186,851	61.2%
UGC Broadband — Chile (VTR)	69,951	41,959	27,992	66.7%	27,268	65.0%
J-COM	428,318	211,146	217,172	102.9%	185,735	88.0%
Corporate and all other	(6,090)	(36,957)	30,867	(83.5)%	30,183	(81.7)%
Elimination of equity affiliates	(1,057,200)	(507,520)	N.M.	N.M.	N.M.	N.M.
Total consolidated LMI	$ 17,747	14,055	N.M.	N.M.	N.M.	N.M.

N.M. — Not Meaningful

For explanations of the factors contributing to the changes in operating cash flow, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments.

Liquidity and Capital Resources

Sources and Uses of Cash

Prior to the spin off, cash transfers from Liberty represented our primary source of funds. Due to the spin off, cash transfers from Liberty no longer represent a source of liquidity for us. Although our consolidated operating subsidiaries have generated cash from operating activities and have borrowed funds under their respective bank facilities, we generally are not entitled to the resources of our operating subsidiaries or business affiliates. In this regard, we and each of our operating subsidiaries perform separate assessments of our respective liquidity needs. Accordingly, the current and future liquidity of our corporate and subsidiary operations is discussed separately below. Following the discussion of our sources and uses of liquidity, we present a discussion of our consolidated cash flow statements.

Corporate Liquidity

At December 31, 2004, we and our non-operating subsidiaries held unrestricted cash and cash equivalents of $1,487,963,000. Such cash and cash equivalents represent available liquidity at the corporate level. Our remaining unrestricted cash and cash equivalents at December 31, 2004 of $1,043,523,000 were held by UGC and our other operating subsidiaries. As noted above, we generally do not anticipate that any of the cash held by our operating subsidiaries will be made available to us to satisfy our corporate liquidity requirements. As described in greater detail below, our current sources of liquidity include (i) our cash and cash equivalents, (ii) our ability to monetize certain investments and derivative instruments, and (iii) interest and dividend income received on our cash and cash equivalents and investments. From time to time, we may also receive distributions or loan repayments from our subsidiaries or affiliates and proceeds upon the disposition of investments and other assets or upon the exercise of stock options.

During the 2004 period prior to the spin off, a subsidiary of our company borrowed $116,666,000 from Liberty pursuant to certain notes payable. In connection with the spin off, Liberty also entered into a Short-Term Credit Facility with us. During the third quarter of 2004, all amounts due to Liberty under the notes payable were repaid with proceeds from the LMI Rights Offering and the Short-Term Credit Facility was terminated.

In connection with the spin off, Liberty contributed to our company cash and cash equivalents of $50,000,000 and available-for-sale securities with a fair value of $561,130,000 on the contribution date. For additional information, see note 2 to the accompanying consolidated financial statements.

On July 19, 2004, our investment in Telewest Communications plc Senior Notes and Senior Discount Notes was converted into 18,417,883 shares or approximately 7.5% of the issued and outstanding common stock of Telewest. During the third and fourth quarters of 2004, we sold all of the acquired Telewest shares for aggregate cash proceeds of $215,708,000, resulting in a pre-tax loss of $16,407,000.

On July 26, 2004, we commenced the LMI Rights Offering whereby holders of record of LMI common stock on that date received 0.20 transferable subscription rights for each share of LMI common stock held. The LMI Rights Offering expired in accordance with its terms on August 23, 2004. Pursuant to the terms of the LMI Rights Offering, we issued 28,245,000 shares of LMI Series A common stock and 1,211,157 shares of LMI Series B common stock in exchange for aggregate cash proceeds of $739,432,000, before deducting related offering costs of $3,771,000.

In October 2004, we sold our interest in the Sky Multi-Country DTH platform in exchange for reimbursement by the purchaser of $1,500,000 of funding provided by us in the previous few months and the release from certain guarantees described below. We were deemed to owe the purchaser $6 million in respect of such platform, which amount was offset against a separate payment we received from the purchaser as explained below. We also agreed to sell our interest in the Sky Brasil DTH platform and granted the purchaser an option to purchase our interest in the Sky Mexico DTH platform. On October 28, 2004, we received $54 million in cash from the purchaser, which consisted of $60 million consideration payable for our Sky Brasil interest less the $6 million we were deemed to owe the purchaser in respect of the Sky Multi-Country DTH platform. The $60 million is refundable by us if the Sky Brasil transaction is terminated. It may be terminated by us or the purchaser if it has not closed by October 8, 2007 or by the purchaser if certain conditions are incapable of being satisfied. We will receive $88 million in cash upon the transfer of our Sky Mexico interest to the purchaser. The Sky Mexico interest will not be transferred until certain Mexican regulatory conditions are satisfied. If the purchaser does not exercise its option to purchase our Sky Mexico interest on or before October 8, 2006 (or in some cases an earlier date), then we have the right to require the purchaser to purchase our interest if certain conditions, including the absence of Mexican regulatory prohibition of the transaction, have been satisfied or waived. In connection with these transactions our guarantees of the obligations of the Sky Multi-Country, Sky Brasil and Sky Mexico platforms under certain transponder leases were terminated and the purchaser agreed to obtain releases of our guarantees of obligations under certain equipment leases no later than December 31, 2004. All but one of such guarantees have been released. The purchaser has agreed to indemnify us for any amounts we are required to pay under our remaining guarantee until such guarantee is terminated.

Cablevisión is currently seeking to restructure its debt pursuant to an out of court reorganization agreement. That agreement has been approved by the requisite majorities of Cablevisión s creditors, and a petition for its approval has been filed by Cablevisión with a commercial court in Buenos Aires under Argentina s bankruptcy laws. Pursuant to the reorganization agreement, we had the right and obligation to contribute $27,500,000 to Cablevisión, for which we would receive, after giving effect to a capital reduction pertaining to the current shareholders of Cablevisión (including the entity in which Liberty had a 78.2% economic interest), approximately 40.0% of the equity of the restructured Cablevisión. In the fourth quarter of, 2004, we entered into an agreement that provided for the transfer of this right and obligation in exchange for cash consideration of approximately $40,527,000. We received 50% of such cash consideration as a down payment in November 2004 and we received the remainder in March 2005. We will recognize a gain of $40,527,000 during the first quarter of 2005 in connection with the closing of this transaction.

On December 21, 2004, we received cash proceeds of ¥43,809 million ($420,188,000 at December 21, 2004) in repayment of all principal and interest due to our company from J-COM and another affiliate pursuant to then outstanding shareholder loans.

During the fourth quarter of 2004, we sold 4,500,000 shares of News Corp. Class A common stock for aggregate cash proceeds of $83,669,000 ($29,770,000 of which was received in 2005), resulting in a pre-tax gain of $37,174,000.
On December 23, 2004, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility with a new $140 million dollar facility consisting of a $125 million six-year term loan facility and a $15 million six-year revolving credit facility. In connection with the closing of this facility, (i) Liberty Cablevision Puerto Rico made a $63,500,000 cash distribution to our company and (ii) the $50,542,000 cash collateral (including interest) for Liberty Cablevision Puerto Rico s previous bank facility was released to our company.
In addition to the above sources and potential sources of liquidity, we may elect to monetize our investments in News Corp., ABC Family preferred stock and/or certain other investments and derivative instruments that we hold. In this regard, we are a party to a variable forward sale transaction with respect to 5,500,000 shares of News Corp. Class A common stock that provided us with borrowing availability of $86,460,000 at December 31, 2004. For additional information concerning our investments and derivative contracts, see notes 7 and 8 to the accompanying consolidated financial statements.
We believe that our current sources of liquidity are sufficient to meet our known liquidity requirements through 2005, including any cash consideration that we might pay in connection with the closing of the proposed merger transaction with UGC, as described below. However, in the event another major investment or acquisition opportunity were to arise, it is likely that we would be required to seek additional capital in order to consummate any such transaction.
Our primary uses of cash have historically been investments in affiliates and acquisitions of consolidated businesses. We intend to continue expanding our collection of international broadband and programming assets. Accordingly, our future cash needs include making additional investments in and loans to existing affiliates, funding new investment opportunities, and funding our corporate general and administrative expenses.
On January 5, 2004, we completed a transaction pursuant to which UGC s founding shareholders transferred 8.2 million shares of UGC Class B common stock to our company in exchange for 12.6 million shares of Liberty Series A common stock valued, for accounting purposes, at $152,122,000 and a cash payment of $12,857,000. We also incurred $2,970,000 of acquisition costs in connection with this transaction. This transaction was the last of a number of independent transactions that occurred from 2001 through January 2004 pursuant to which we acquired our controlling interest in UGC.
During 2004 we also purchased an additional 20 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to our company by UGC. The $152,284,000 purchase price for such shares was comprised of (i) the cancellation of indebtedness due from subsidiaries of UGC to certain of our subsidiaries in the amount of $104,462,000 (including accrued interest) and (ii) $47,822,000 in cash. As UGC was one of our consolidated subsidiaries at the time of these purchases, the effect of these purchases was eliminated in consolidation.
Also, in January 2004, UGC initiated a rights offering pursuant to which holders of each of UGC s Class A, Class B and Class C common stock received 0.28 transferable subscription rights to purchase a like class of common stock for each share of UGC common stock owned by them on January 21, 2004. The rights offering expired on February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 90.7 million shares for a total cash purchase price of $544,250,000.
We hold a 50% interest in Metrópolis, a cable operator in Chile. On January 23, 2004, we, Liberty and CristalChile entered into an agreement pursuant to which each agreed to use its respective commercially reasonable efforts to combine the businesses of Metrópolis and VTR a wholly owned subsidiary of UGC. If the proposed combination is consummated, UGC would own 80% of the voting and equity rights in the combined entity, and CristalChile would own the remaining 20%. We would also receive a promissory note from the combined entity (the amount of which is subject to negotiation), which would be unsecured and subordinated

to third party debt. In addition, CristalChile would have a put right which would allow CristalChile to require UGC to purchase all, but not less than all, of its interest in the combined entity at the fair value of the interest, subject to a minimum price of $140 million. This put right will end on the tenth anniversary of the combination. Liberty has agreed to perform UGC s obligations under CristalChile s put if UGC does not do so and, in connection with the spin off, we agreed to indemnify Liberty against its obligations with respect to CristalChile s put right. If the merger does not occur, we and CristalChile have agreed to fund our pro rata share of a capital call sufficient to retire Metropolis local debt facility, which had an outstanding principal amount of Chilean pesos 30.2 billion ($54,399,000) at December 31, 2004. The combination is subject to certain conditions, including the execution of definitive agreements, Chilean regulatory approval, the approval of the respective boards of directors of the relevant parties (including, in the case of UGC, the independent members of UGC s board of directors) and the receipt of necessary third party approvals and waivers. The Chilean antitrust authorities approved the combination in October 2004 subject to certain conditions. The primary conditions require that the combined entity (i) re-sell broadband capacity to third party Internet service providers on a wholesale basis; (ii) activate two-way capacity on all portions of the combined network within five years; and (iii) limit basic tier price increases to the rate of inflation plus a programming cost escalator over the next three years. An action was filed with the Chilean Supreme Court seeking to reverse such approval, but the action was dismissed on March 10, 2005. We, CristalChile and UGC are currently negotiating the terms of the definitive agreements for the combination.

On May 20, 2004, we acquired all of the issued and outstanding ordinary shares of PHL for 2,447,000, including 447,000 of acquisition costs ($2,918,000 at May 20, 2004). PHL, through its subsidiary Chorus Communications Limited, owns and operates broadband communications systems in Ireland. In connection with this acquisition, we loaned an aggregate of 75,000,000 ($89,483,000 as of May 20, 2004) to PHL. The proceeds from this loan were used by PHL to discharge liabilities pursuant to a debt restructuring plan and to provide funds for capital expenditures and working capital. In June 2004, LMI loaned PHL an additional 4,500,000 ($6,137,000), for a total of 79,500,000 ($108,414,000) as of December 31, 2004. In addition to the amounts loaned to PHL as of December 31, 2004, we have committed to loan to PHL up to 10,000,000 ($13,637,000) at December 31, 2004. On December 16, 2004, UGC acquired our interest in PHL in exchange for 6,413,991 shares of UGC Class A common stock, valued for accounting purposes at $58,303,000 on that date. In connection with UGC s acquisition of our interest in PHL, UGC committed to refinance our loans to PHL no later than June 16, 2005. We and UGC accounted for this transaction as a reorganization of entities under common control at historical cost, similar to a pooling of interests. For additional information, see note 5 to the accompanying consolidated financial statements.

During the fourth quarter of 2004, we entered into call option contracts pursuant to which we contemporaneously (i) sold call options on 1,210,000 shares of LMI Series A common stock at exercise prices ranging from $39.5236 to $41.7536, and (ii) purchased call options on 1,210,000 shares with an exercise price of zero. As structured with the counterparty, these instruments have similar financial mechanics to prepaid put option contracts. Under the terms of the contracts, we can elect cash or physical settlement. All of the contracts expired during the first quarter of 2005 and were settled for cash. At December 31, 2004, the $49,218,000 fair value of these call option contracts is included in other current assets in the accompanying consolidated balance sheet.

On December 16, 2004, chellomedia Belgium acquired our wholly owned subsidiary BCH for $121,068,000 in cash. BCH s only assets were debt securities of CPE and one of the InvestCos and certain related contract rights. This purchase price was equal to our cost basis in these debt securities, which included an unrealized gain of $10,517,000. On December 17, 2004, UGC entered into a restructuring transaction with CPE and certain other parties. In this restructuring, BCH contributed approximately $137,950,000 in cash and the debt security of the InvestCo to Belgian Cable Investors in exchange for a 78.4% common equity interest and 100% preferred equity interest in Belgian Cable Investors. CPE owns the remaining 21.6% interest in Belgian Cable Investors. Belgian Cable Investors distributed approximately $115,592,000 in cash to CPE, which used the proceeds to repurchase the debt securities of CPE held by BCH. Belgian Cable Investors holds an indirect 14.1% interest in Telenet and certain call options expiring in 2007 and 2009 to acquire 3.36 million shares (11.6%) and 5.11 million shares (17.6%), respectively, of the outstanding equity of Telenet from existing

shareholders. Belgian Cable Investors indirect 14.1% interest in Telenet results from its majority ownership of the InvestCos, which hold in the aggregate 18.99% of the stock of Telenet, and a shareholders agreement among Belgian Cable Investors and three unaffiliated investors in the InvestCos that governs the voting and disposition of 21.36% of the stock of Telenet, including the stock held by the InvestCos.

During December 2004, we paid $127,890,000 to purchase 3,000,000 shares of LMI Series A common stock from Comcast Corporation in a private transaction.

On January 17, 2005, we entered into an agreement and plan of merger with UGC pursuant to which we each will merge with a separate wholly owned subsidiary of a new parent company named Liberty Global, which has been formed for this purpose. In the mergers, each outstanding share of LMI Series A common stock and LMI Series B common stock will be exchanged for one share of the corresponding series of Liberty Global common stock. UGC s public stockholders may elect to receive for each share of common stock owned either 0.2155 of a share of Liberty Global Series A common stock (plus cash for any fractional share interest) or $9.58 in cash. Cash elections will be subject to proration so that the aggregate cash consideration paid to UGC s stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC s public stockholders. Completion of the transactions is subject to, among other conditions, approval of both companies stockholders, including an affirmative vote of a majority of the voting power of UGC Class A common stock not beneficially owned by our company, Liberty, any of our respective subsidiaries or any of the executive officers or directors of our company, Liberty, or UGC. Based on the number of shares outstanding of LMI common stock and UGC common stock at December 31, 2004, we estimate that UGC s public stockholders will receive (i) between approximately 63 million and 79 million shares of Liberty Global Series A common stock and (ii) between nil and approximately $700 million of cash consideration depending on the extent to which UGC public shareholders elect to receive cash consideration. We anticipate that we would fund any cash consideration with existing cash balances.

As noted above, we will begin consolidating Super Media and J-COM effective January 1, 2005. We do not expect the consolidation of Super Media and J-COM to have a material impact on our liquidity or capital resources as we expect that both our company and J-COM will continue to separately assess and finance our respective liquidity needs.

Subsidiary Liquidity

UGC. At December 31, 2004, UGC held cash and cash equivalents of $1,028,993,000 and short-term liquid investments of $48,965,000. In addition to its cash and cash equivalents and its short-term liquid investments, UGC s sources of liquidity include borrowing availability under its existing credit facilities and its operating cash flow.

UGC completed a rights offering in February 2004 and received net cash proceeds of $1.02 billion. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 90.7 million shares for a total cash purchase price of $544,250,000.

On February 18, 2004, in connection with the consummation of UPC Polska s plan of reorganization and emergence from its U.S. bankruptcy proceeding, third-party holders of UPC Polska Notes and other claimholders received a total of $87,361,000 in cash, $101,701,000 in new 9% UPC Polska Notes due 2007 and approximately 2,011,813 shares of UGC Class A common stock in exchange for the cancellation of their claims. UGC redeemed the new 9% UPC Polska Notes due 2007 for a cash payment of $101,701,000 during the third quarter of 2004.

On April 6, 2004, UGC completed the offering and sale of 500 million UGC Convertible Notes. The UGC Convertible Notes are convertible into shares of UGC Class A common stock at an initial conversion price of 9.7561 per share, which was equivalent to a conversion price of $12.00 per share and a conversion rate of 102.5 shares per 1,000 principal amount of the UGC Convertible Notes on the date of issue. For additional information, see note 10 to the accompanying consolidated financial statements.

On December 17, 2004, VTR completed the refinancing of its existing bank facility with the VTR Bank Facility, a new Chilean peso-denominated six-year amortizing term senior secured credit facility. The facility consists of two tranches a 54.7675 billion Chilean peso ($95 million at December 17, 2004) committed Tranche A and an uncommitted Tranche B. At December 31, 2004, the U.S. dollar equivalent of the amount outstanding under Tranche A of the VTR Bank Facility was $97,941,000.

At December 31, 2004, UGC s debt includes outstanding euro denominated borrowings under four Facilities aggregating 2,366,217,000 ($3,226,810,000) and U.S. dollar denominated borrowings under two Facilities aggregating $701,020,000 pursuant to the UPC Broadband Bank Facility (as amended through December 31, 2004), 500 million ($681,850,000) principal amount of UGC Convertible Notes, $97,941,000 outstanding under the VTR Bank Facility, and certain other borrowings. A fifth euro denominated Facility under the UPC Broadband Bank Facility provided for aggregate availability of 667 million ($909 million) at December 31, 2004. The indenture governing the UPC Broadband Bank Facility (i) provides for a commitment fee of 0.5% of unused borrowing availability and (ii) is secured by the assets of most of UPC s majority-owned European cable operating companies and is senior to other long-term obligations of UPC. The indenture governing the UPC Broadband Bank Facility also contains covenants that limit among other things, UPC Broadband s ability to merge with or into another company, acquire other companies, incur additional debt, dispose of any assets unless in the ordinary course of business, enter or guarantee a loan, and enter into a hedging arrangement. The indenture also restricts UPC Broadband from transferring funds to its parent company (and directly to UGC) through loans, advances or dividends. The weighted average interest rate on borrowings under the UPC Broadband Bank Facility was 6% for 2004.

On March 8, 2005, the UPC Broadband Bank Facility was further amended to permit indebtedness under: (i) Facility G, a new 1.0 billion term loan facility maturing in full on April 1, 2010; (ii) Facility H, a new 1.5 billion ($2.05 billion) term loan facility maturing in full on September 1, 2012, of which $1.25 billion was denominated in U.S. dollars and then swapped into euros through a 7.5 year cross-currency swap; and (iii) Facility I, a new 500 million ($682 million) revolving credit facility maturing in full on April 1, 2010. In connection with this amendment, 167 million ($228 million) of Facility A, the existing revolving credit facility, was cancelled, reducing Facility A to a maximum amount of 500 million ($682 million). The proceeds from Facilities G and H were used primarily to prepay all amounts outstanding under existing term loan Facilities B, C and E, to fund certain acquisitions and pay transaction fees. The aggregate availability of 1.0 billion ($1.36 billion) under Facilities A and I can be used to fund acquisitions and for general corporate purposes. As a result of this amendment, the weighted average maturity of the UPC Broadband Bank Facility was extended from approximately 4 years to approximately 6 years, with no amortization payments required until 2010, and the weighted average interest margin on the UPC Broadband Bank Facility was reduced by approximately 0.25% per annum. The amendment also provided for additional flexibility on certain covenants and the funding of acquisitions.

For additional information concerning UGC s debt, see note 10 to the accompanying consolidated financial statements.

On July 1, 2004, UPC Broadband France, an indirect subsidiary of UGC and the owner of UGC s French cable television operations, acquired Noos, from Suez. Noos is a provider of digital and analog cable television services and high-speed Internet access services in France. UPC Broadband France purchased Noos to achieve certain financial, operational and strategic benefits through the integration of Noos with its French operations and the creation of a platform for further growth and innovation in Paris and its remaining French systems. The preliminary purchase price was subject to a review of certain historical financial information of Noos and UPC Broadband France. In January 2005, UGC completed its purchase price review with Suez, which resulted in a 42,844,000 ($52,128,000) reduction in the purchase price. The final purchase price for Noos was approximately 567,102,000 ($689,989,000), consisting of 487,085,000 ($592,633,000) in cash and a 19.9% equity interest in UPC Broadband France, valued at approximately 71,339,000 ($86,798,000). Acquisition costs totaled 8,678,000 ($10,558,000). For additional information, see note 5 to the accompanying consolidated financial statements.

During the third quarter of 2004, UGC s Board of Directors authorized a $100 million share repurchase program. As of December 31, 2004, UGC had repurchased 787,391 shares of UGC Class A common stock under this program. Pursuant to the Liberty Global merger agreement, UGC may not make further purchases of its Class A common stock until the mergers contemplated thereby are completed or the merger agreement is terminated.

On January 12, 2004, Old UGC, a wholly owned subsidiary of UGC that principally owns UGC s interests in businesses in Latin America and Australia, filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. Old UGC s plan of reorganization, as amended, was confirmed by the Bankruptcy Court on November 10, 2004, and the restructuring of its indebtedness and other obligations pursuant to the plan was completed on November 24, 2004. On February 15, 2005, all of the Old UGC Senior Notes held by third parties were redeemed in full for total cash consideration of $25,068,000 plus accrued interest from August 15, 2004 through the redemption date totaling $1,324,000. For additional information, see note 16 to the accompanying consolidated financial statements.

On January 17, 2005, chellomedia acquired an 87.5% interest in Zone Vision from its current shareholders. Zone Vision is a programming company that owns three pay television channels and represents over 30 international channels. The consideration for the transaction consisted of $50 million in cash and 1.6 million shares of UGC Class A common stock, which are subject to a five-year vesting period. As part of the transaction, chellomedia will contribute to Zone Vision the 49% interest it already holds in Reality TV Ltd. and chellomedia s Club channel business.

During the first quarter of 2005, UGC made aggregate cash payments of $49.3 million in connection with the settlement of certain litigation. For additional information, see note 22 to the accompanying consolidated financial statements.

Management of UGC believes that UGC will be able to meet its current and long-term liquidity, acquisition and capital needs through its existing cash, operating cash flow and available borrowings under its existing credit facilities. However, to the extent that UGC management plans to grow UGC s business through acquisitions, UGC management believes that UGC will need additional sources of financing, most likely to come from the capital markets in the form of debt or equity financing or a combination of both.

Other Subsidiaries. Liberty Cablevision Puerto Rico and Pramer generally fund their own investing and financing activities with cash from operations and bank borrowings, as necessary. Due to covenants in their respective loan agreements, we generally are not entitled to the cash resources or cash generated by the operating activities of these two consolidated subsidiaries. As noted above, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility on December 23, 2004. At December 31, 2004, Pramer s U.S. dollar denominated bank borrowings aggregated $12,338,000. During 2002, following the devaluation of the Argentine peso, Pramer failed to make certain required payments due under its bank credit facility, resulting in a technical default. However, the bank lenders did not provide notice of default or request acceleration of the payments due under the facility. On December 29, 2004, Pramer and the banks signed definitive documents for the refinancing of this credit facility (the New Pramer Facility) and the closing occurred on January 28, 2005.

Consolidated Cash Flow Statements

Our cash flows are subject to significant variations based on foreign currency exchange rates. See related discussion under Quantitative and Qualitative Disclosures about Market Risk below. See also our Discussion and Analysis of Reportable Segments above.

Due to the fact that we began consolidating UGC on January 1, 2004, our cash flows for 2004 are not comparable to the cash flows for 2003. Accordingly, the following discussion focuses on our cash flows for 2004.

During 2004, we used net cash provided by our financing activities of $2,240,388,000 and net cash provided by operating activities of $746,240,000 to fund an increase in our cash and cash equivalent balances of $2,451,977,000 (excluding a $66,756,000 increase due to changes in foreign exchange rates) and net cash used in our investing activities of $534,651,000.

During 2004, the net cash used by our investing activities was $534,651,000. Such amount includes net cash paid for acquisitions of $508,836,000, capital expenditures of $508,347,000, investments in and loans to affiliates and others of $256,959,000 and other less significant uses of cash. For additional information concerning our acquisitions during 2004, see note 5 to the accompanying consolidated financial statements. UGC accounted for $480,133,000 of our consolidated capital expenditures during 2004. In 2005, UGC management will continue to focus on increasing penetration of services in its existing upgraded footprint and the efficient deployment of capital aimed at services that result in positive net cash flows. UGC management expects its capital expenditures to be significantly higher in 2005 than in 2004, primarily due to: (i) costs for customer premise equipment as UGC management expects to add more customers in 2005 than in 2004; (ii) increased expenditures for new build and upgrade projects to meet certain franchise commitments, increased traffic, expansion of services and other competitive factors; (iii) new initiatives such as UGC management s plan to invest more aggressively in digital television in certain locations and UGC management s planned VoIP rollout in UGC s major markets in Europe and Chile; and (iv) other factors such as improvements to UGC s master telecom center in Europe, information technology upgrades and expenditures for UGC s general support systems.

The above-described uses of our cash for investing activities were partially offset by proceeds received upon repayment of principal amounts loaned to affiliates of $535,074,000 and proceeds received upon dispositions of investments of $315,792,000 and other less significant sources of cash. The proceeds received upon repayment of affiliate loans primarily represent the third and fourth quarter repayment of yen-denominated loans to J-COM and another affiliate. The proceeds received upon dispositions of investments relate primarily to the sale of our Telewest and News Corp. securities.

During 2004, the cash provided by our financing activities was $2,240,388,000. Such amount includes net proceeds of $735,661,000 from the LMI Rights Offering, contributions from Liberty of $704,250,000, net proceeds received on a consolidated basis from the issuance of stock by subsidiaries of $488,437,000, and net borrowings of debt of $451,830,000.

During 2003 and 2002, cash contributions from Liberty funded most of our investments in and advances to our affiliates, principally J-COM in 2003, and principally UGC and J-COM during 2002.

Critical Accounting Policies, Judgments and Estimates

The preparation of these financial statements required us to make estimates and assumptions that affected the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions. Critical accounting policies are defined as those policies that are reflective of significant judgments and uncertainties, which would potentially result in materially different results under different assumptions and conditions. We believe our judgments and related estimates associated with the carrying value of our investments, the carrying value of our long-lived assets, the valuation of our acquisition related assets and liabilities, capitalization of our construction and installation costs and our income tax accounting to be critical in the preparation of our consolidated financial statements. These accounting estimates or assumptions are critical because of the levels of judgment necessary to account for matters that are inherently uncertain or highly susceptible to change.

Carrying Value of Long-lived Assets

The aggregate carrying value of our property and equipment, intangible assets and goodwill (collectively, long-lived assets) comprised 55% and 21% of our total assets at December 31, 2004 and 2003, respectively. Pursuant to Statements 142 and 144, we are required to assess the recoverability of our long-lived assets.

Statement 144 requires that we periodically review the carrying amounts of our property and equipment and our intangible assets (other than goodwill and indefinite-lived intangible assets) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

Pursuant to Statement 142, we evaluate the goodwill and franchise rights for impairment at least annually on October 1 and whenever other facts and circumstances indicate that the carrying amounts of goodwill and franchise rights may not be recoverable. For purposes of the goodwill evaluation, we compare the fair value of each of our reporting units to their respective carrying amounts. If the carrying value of a reporting unit were to exceed its fair value, we would then compare the implied fair value of the reporting unit s goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. Consistent with the provisions of Emerging Issue Task Force Issue No. 02-7, *Unit of Measure for Testing Impairment of Indefinite-Lived Assets,* we evaluate the recoverability of the carrying amount of our franchise rights based on the same asset groupings used to evaluate our long-lived assets because the franchise rights are inseparable from the other assets in the asset group. Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

Considerable management judgment is necessary to estimate the fair value of assets; accordingly, actual results could vary significantly from such estimates.

In 2004, 2003 and 2002, we recorded impairments of our long-lived assets aggregating $69,353,000, nil and $45,928,000, respectively. For additional information, see note 9 to the accompanying consolidated financial statements.

Carrying Value of Investments

The aggregate carrying value of our available-for-sale, cost and equity method investments comprised 20% and 59% of our total assets at December 31, 2004 and 2003, respectively. We account for these investments pursuant to Statement 115, Statement 142 and Accounting Principles Board Opinion No. 18. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary. If a decline in fair value is determined to be other-than-temporary, we are required to reflect such decline in our statement of operations. Other-than-temporary declines in fair value of cost investments are recognized on a separate line in our consolidated statement of operations, and other-than-temporary declines in fair value of equity method investments are included in share of losses of affiliates in our consolidated statement of operations.

The primary factors we consider in our determination are the length of time that the fair value of the investment is below our company s carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other-than-temporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, we use our best estimates and assumptions to arrive at the estimated fair value of such investment. Our assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from our estimates and judgments.

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

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In 2004, 2003 and 2002, we recorded other-than-temporary declines in the fair values of our (i) cost and available-for-sale investments aggregating $18,542,000, $6,884,000 and $247,386,000, respectively, and (ii) equity method investments aggregating $25,973,000, $12,616,000, and $72,030,000, respectively.

Fair Value of Acquisition Related Assets and Liabilities

We allocate the purchase price of acquired companies or acquisitions of minority interests of a subsidiary to the identifiable assets acquired and liabilities assumed based on their estimated fair values. In determining fair value, management is required to make estimates and assumptions that affect the recorded amounts. To assist in this process, third party valuation specialists generally are engaged to value certain of these assets and liabilities. Estimates used in valuing acquired assets and liabilities include, but are not limited to, expected future cash flows, market comparables and appropriate discount rates. Management s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

Capitalization of Construction and Installation Costs

In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies,* we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and applicable overhead costs. Installation activities that are capitalized include (i) the initial connection (or drop) from our cable system to a customer location, (ii) the replacement of a drop, and (iii) the installation of equipment for additional services, such as digital cable, telephone or broadband Internet service. The costs of other customer-facing activities such as reconnecting customer locations where a drop already exists, disconnecting customer locations and repairing or maintaining drops, are expensed. Significant judgment is involved in the determination of the nature and amount of internal costs to be capitalized with respect to construction and installation activities.

Income Tax Accounting

We are required to estimate the amount of tax payable or refundable for the current year and the deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for each taxing jurisdiction in which we operate for the year in which those temporary differences are expected to be recovered or settled. This process requires our management to make assessments regarding the timing and probability of the ultimate tax impact of such items. Net deferred tax assets are reduced by a valuation allowance if we believe it more-likely-than-not such net deferred tax assets will not be realized. Establishing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities. Actual income taxes could vary from these estimates due to future changes in income tax law in the jurisdictions in which we operate, our inability to generate sufficient future taxable income, differences between estimated and actual results, or unpredicted results from the final determination of each year s liability by taxing authorities. Any of such factors could have a material effect on our current and deferred tax position as reported in the accompanying consolidated financial statements. A high degree of judgment is required to assess the impact of possible future outcomes on our current and deferred tax positions. For additional information, see note 11 to the accompanying consolidated financial statements.

Off Balance Sheet Arrangements and Aggregate Contractual Obligations

Off Balance Sheet Arrangements

At December 31, 2004, Liberty guaranteed ¥4,695 million ($45,842,000) of the bank debt of J-COM. Liberty s guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2019. In connection with the spin off, we have agreed to indemnify Liberty for any amounts it is required to fund under these arrangements.

Liberty Japan MC owns a 36.4% voting interest in Mediatti Communications and an additional 0.87% interest that has limited veto rights. Liberty Japan MC has the option until February 2006 to acquire from Mediatti up to 9,463 additional shares in Mediatti at a price of ¥290,000 ($3,000) per share. If such option is fully exercised, Liberty Japan MC s interest in Mediatti will be approximately 46%. The additional interest that Liberty Japan MC has the right to acquire may initially be in the form of non-voting Class A shares, but it is expected that any Class A shares owned by Liberty Japan MC will be converted to voting common stock.

The Mediatti shareholders who are party to the shareholders agreement have granted to each other party whose ownership interest is greater than 10%, a right of first refusal with respect to transfers of their respective interests in Mediatti. Each shareholder also has tag-along rights with respect to such transfers. Olympus Mediacom has a put right that is first exercisable during July 2008 to require Liberty Japan MC, LLC to purchase all of its Mediatti shares at fair market value. If Olympus exercises such right, the two minority shareholders who are party to the shareholders agreement may also require Liberty Japan MC to purchase their Mediatti shares at fair market value. If Olympus Mediacom does not exercise such right, Liberty Japan MC has a call right that is first exercisable during July 2009 to require Olympus Mediacom and the minority shareholders to sell their Mediatti shares to Liberty Japan MC at fair market value. If both the Olympus Mediacom put right and the Liberty Japan MC call right expire without being exercised during the first exercise period, either may thereafter exercise its put or call right, as applicable, until October 2010.

Suez 19.9% interest in UPC Broadband France consists of 85,000,000 Class B Shares of UPC Broadband France. Subject to the terms of a call option agreement, UPC France, UGC s indirect wholly owned subsidiary, has the right through June 30, 2005 to purchase from Suez all of the Class B Shares for 85,000,000, subject to adjustment, plus interest. The purchase price for the Class B Shares may be paid in cash, UGC Class A common stock or LMI Series A common stock. Subject to the terms of a put option, Suez may require UPC France to purchase the Class B Shares at specific times prior to or after the third, fourth or fifth anniversaries of the purchase date. UPC France will be required to pay the then fair value, payable in cash, UGC common stock or LMI Series A common stock, for the Class B Shares or assist Suez in obtaining an offer to purchase the Class B Shares. UPC France also has the option to purchase the Class B Shares from Suez shortly after the third, fourth or fifth anniversaries of the purchase date at the then fair value in cash, UGC Class A common stock or LMI Series A common stock.

Pursuant to the agreement with CPE governing Belgian Cable Investors, CPE has the right to require BCH to purchase all of CPE s interest in Belgian Cable Investors for the then appraised fair market value of such interest during the first 30 days of every six-month period beginning in December 2007. BCH has the corresponding right to require CPE to sell all of its interest in Belgian Cable Investors to BCH for appraised fair value during the first 30 days of every six-month period following December 2009.

In January 2005, chellomedia acquired an 87.5% interest in Zone Vision from its current shareholders. Zone Vision s minority shareholders have the right to put 60% of their 12.5% shareholding in Zone Vision to chellomedia on the third anniversary of the completion of the acquisition, and 100% of their shareholding on the fifth anniversary of the completion of the acquisition. Chellomedia has corresponding call rights. The price payable upon exercise of the put or call will be the then fair market value of the shareholdings purchased.

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

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

Contractual Commitments

As of December 31, 2004, the U.S. dollar equivalent (based on December 31, 2004 exchange rates) of our consolidated contractual commitments are as follows:

	Payments due during years ended December 31,				
	2005	**2006-2007**	**2008-2009**	**Thereafter**	**Total**
	amounts in thousands				
Debt	$ 29,518	1,308,328	2,112,967	1,509,094	4,959,907
Capital leases	2,585	5,995	7,166	32,608	48,354
Other debt	4,724	2,145	1,533	2,124	10,526
	$ 36,827	1,316,468	2,121,666	1,543,826	5,018,787
Operating leases	$ 101,440	142,630	94,811	124,092	462,973
Purchase obligations:					
Programming	95,911	34,181	8,838	17,086	156,016
Other	22,717	1,957			24,674
Other commitments	53,697	15,636	7,925	14,313	91,571
Total contractual payments	$ 310,592	1,510,872	2,233,240	1,699,317	5,754,021

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us inasmuch as we have agreed to pay minimum fees, regardless of the actual number of subscribers or whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems.

Other purchase obligations consist of commitments to purchase customer premise equipment that are enforceable and legally binding on us. Other commitments consist of commitments to rebuild or upgrade cable systems and to extend the cable network to new developments, network maintenance, and other fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities. The amount and timing of the payments included in the table with respect to our rebuild, upgrade and network extension commitments are estimated based on the remaining capital required to bring the cable distribution system into compliance with the requirements of the applicable franchise agreement specifications.

In addition to the commitments set forth in the table above, we have commitments under agreements with programming vendors, franchise authorities and municipalities, and other third parties pursuant to which we expect to make payments in future periods. Such amounts are not included in the above table because they are not fixed or determinable due to various factors.

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

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

Cash and Investments

We invest our cash in liquid instruments that meet high credit quality standards and generally have maturities at the date of purchase of less than three months. We are exposed to exchange rate risk with respect to certain of our cash balances that are denominated in the Japanese yen, euros and, to a lesser degree, other currencies. At December 31, 2004, we held cash balances of $417,488,000 that were denominated in the Japanese yen and UGC held cash balances of $713,016,000 that were denominated in euros. These Japanese yen and euro cash

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balances are available to be used for future acquisitions and other liquidity requirements that may be denominated in such currencies.

We are also exposed to market price fluctuations related to our investments in equity securities. At December 31, 2004, the aggregate fair value of our equity method and available-for-sale investments that was subject to price risk was $708,787,000.

Foreign Currency Risk

We are exposed to unfavorable and potentially volatile fluctuations of the U.S. dollar (our functional currency) against the currencies of our operating subsidiaries and affiliates. Any increase (decrease) in the value of the U.S. dollar against any foreign currency that is the functional currency of one of our operating subsidiaries or affiliates will cause the parent company to experience unrealized foreign currency translation losses (gains) with respect to amounts already invested in such foreign currencies. In addition, we and our operating subsidiaries and affiliates are exposed to foreign currency risk to the extent that we enter into transactions denominated in currencies other than our respective functional currencies, such as investments in debt and equity securities of foreign subsidiaries, equipment purchases, programming costs, notes payable and notes receivable (including intercompany amounts) that are denominated in a currency other than their own functional currency. Changes in exchange rates with respect to these items will result in unrealized (based upon period-end exchange rates) or realized foreign currency transaction gains and losses upon settlement of the transactions. In addition, we are exposed to foreign exchange rate fluctuations related to our operating subsidiaries monetary assets and liabilities and the financial results of foreign subsidiaries and affiliates when their respective financial statements are translated into U.S. dollars for inclusion in our consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) as a separate component of equity. As a result of foreign currency risk, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for our company is to the euro as over 50% of our U.S. dollar revenue is derived from countries where the euro is the functional currency. In addition, we have significant exposure to changes in the exchange rates for the Japanese yen, Chilean peso and, to a lesser degree, other local currencies in Europe.

We generally do not enter into derivative transactions that are designed to reduce our long-term exposure to foreign currency exchange risk. However, in order to reduce our foreign currency exchange risk related to our cash balances that are denominated in Japanese yen and our investment in J-COM, we have entered into collar agreements with respect to ¥15 billion ($146,470,000). These collar agreements have a weighted average remaining term of approximately 2^{1}/2 months, an average call price of ¥105/ U.S. dollar and an average put price of ¥109/ U.S. dollar. In the past, we have also entered into forward sales contracts with respect to the Japanese yen. During 2004, we paid $17,001,000 to settle yen forward sales and collar contracts.

The relationship between the euro, Japanese yen and Chilean peso and the U.S. dollar, which is our reporting currency, is shown below, per one U.S. dollar:

	Spot rate		
	Euro	**Japanese yen**	**Chilean peso**
December 31, 2004	0.7333	102.41	559.19
December 31, 2003	0.7933	107.37	593.80
December 31, 2002	0.9545	118.76	718.61

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	Average rate		
	Euro	Japanese yen	Chilean peso
Year ended:			
December 31, 2004	0.8059	107.44	609.22
December 31, 2003	0.8806	116.06	686.04
December 31, 2002	1.0492	125.31	689.54

Inflation and Foreign Investment Risk

Certain of our operating companies operate in countries where the rate of inflation is higher than that in the United States. While our affiliated companies attempt to increase their subscription rates to offset increases in operating costs, there is no assurance that they will be able to do so. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on reported earnings. We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs, the effects of which to date have not been material. Our foreign operating companies are all directly affected by their respective countries government, economic, fiscal and monetary policies and other political factors.

Interest Rate Risks

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include fixed and floating rate investments and borrowings by our operating subsidiaries that are used to maintain liquidity and fund their respective business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. Our primary exposure to variable rate debt is through the EURIBOR-indexed and LIBOR-indexed debt of UGC. UGC maintains a mix of fixed and variable rate debt and enters into various derivative transactions pursuant to UGC s policies to manage exposure to movements in interest rates. UGC monitors its interest rate risk exposures using techniques including market value and sensitivity analyses. UGC manages the credit risks associated with its derivative financial instruments through the evaluation and monitoring of the creditworthiness of the counterparties. Although the counterparties may expose UGC to losses in the event of nonperformance, UGC does not expect such losses, if any, to be significant. UGC uses interest rate exchange agreements to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. UGC uses interest rate cap agreements that lock in a maximum interest rate should variable rates rise, but which enable it to otherwise pay lower market rates.

During the first quarter of 2003, UGC purchased interest rate caps related to the UPC Broadband Bank Facility that capped the variable EURIBOR interest rate at 3.0% on a notional amount of 2.7 billion for 2003 and 2004. As UGC was able to fix its variable interest rates below 3.0% on the UPC Broadband Bank Facility during 2003 and 2004, all of these caps expired without being exercised. During the first and second quarter of 2004, UGC purchased interest rate caps for a total of $21,442,000, capping the variable interest rate at 3.0% and 4.0% for 2005 and 2006, respectively, on notional amounts totaling 2.25 billion to 2.6 billion.

In June 2003, UGC entered into a cross currency and interest rate swap pursuant to which a notional amount of $347.5 million was swapped at an average rate of 1.133 euros per U.S. dollar until July 2005, with the variable LIBOR interest rate (including margin) swapped into a fixed interest rate of 7.85%. Following the prepayment of part of Facility C in December 2004, UGC paid down this swap with a cash payment of $59,100,000 and unwound a notional amount of $171,480,000. The remainder of the swap is for a notional amount of $176,020,000, and the euro to U.S. dollar exchange rate has been reset at 1.3158 to 1. In connection with the refinancing of the UPC Broadband Bank Facility in December 2004, UGC entered into a seven-year cross currency and interest rate swap pursuant to which a notional amount of $525 million was swapped at a rate of 1.3342 euros per U.S. dollar until December 2011, with the variable interest rate of LIBOR + 300 basis points swapped into a variable rate of EURIBOR + 310 basis points for the same time period.

During 2004, the weighted-average interest rate on variable rate indebtedness of our consolidated subsidiaries was approximately 6%. If market interest rates had been higher by 50 basis points during this period, our consolidated interest expense would have increased by approximately $19 million during 2004.

Derivative Instruments

At December 31, 2004, we were a party to total return debt swaps in connection with (i) bank debt of a subsidiary of UPC, and (ii) public debt of Cablevisión. Through March 2, 2005, Liberty owned an indirect 78.2% economic and non-voting interest in a limited liability company that owns 50% of the outstanding capital stock of Cablevisión. Under the total return debt swaps, a counterparty purchases a specified amount of the underlying debt security for the benefit of our company. We posted collateral with the counterparties equal to 30% of the counterparty s purchase price for the purchased indebtedness of the UPC subsidiary and 90% of the counterparty s purchase price for the purchased indebtedness of Cablevisión. We record a derivative asset equal to the posted collateral and such asset is included in other assets in the accompanying consolidated balance sheets. We earn interest income based upon the face amount and stated interest rate of the underlying debt securities, and pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying purchased indebtedness of the UPC subsidiary declines by 10% or more, we are required to post cash collateral for the decline, and we record an unrealized loss on derivative instruments. The cash collateral related to the UPC subsidiary indebtedness is further adjusted up or down for subsequent changes in the fair value of the underlying indebtedness or for foreign currency exchange rate movements involving the euro and U.S. dollar. During the fourth quarter of 2004, we received cash proceeds of $35,800,000 in connection with the termination of a portion of the total return swap related to the debt of the UPC subsidiary. At December 31, 2004, the aggregate purchase price of debt securities underlying our total return debt swap arrangements involving the indebtedness of the UPC subsidiary and Cablevisión was $29,532,000. As of such date, we had posted cash collateral equal to $19,868,000 ($2,930,000 with respect to the UPC subsidiary and $16,938,000 with respect to Cablevisión). If the fair value of the purchased debt securities had been zero at December 31, 2004, we would have been required to post additional cash collateral of $8,972,000. During the first quarter of 2005, we received cash proceeds of $22,264,000 upon termination of the Cablevisión and UPC subsidiary total return swaps.

Prior to the spin off, Liberty contributed to our company 10,000,000 shares of News Corp. Class A common stock, together with a related variable forward transaction. In connection with the sale of 4,500,000 shares of News Corp. Class A common stock during the fourth quarter of 2004, we paid $3,429,000 to terminate the portion of the variable forward transaction that related to the shares that were sold. After giving effect to the fourth quarter termination transaction, the forward, which expires on September 17, 2009, provides (i) us with the right to effectively require the counterparty to buy 5,500,000 News Corp. Class A common stock at a price of $15.72 per share, or an aggregate price of $86,460,000 (the Floor Price), and (ii) the counterparty with the effective right to require us to sell 5,500,000 shares of News Corp. Class A common stock at a price of $26.19 per share. At any time during the term of the forward, we can require the counterparty to advance the full Floor Price. Provided we do not draw an aggregate amount in excess of the present value of the Floor Price, as determined in accordance with the forward, we may elect to draw such amounts on a discounted or undiscounted basis. As long as the aggregate advances are not in excess of the present value of the Floor Price, undiscounted advances will bear interest at prevailing three-month LIBOR and discounted advances will not bear interest. Amounts advanced up to the present value of the Floor Price are secured by the underlying shares of News Corp. Class A common stock. If we elect to draw amounts in excess of the present value of the Floor Price, those amounts will be unsecured and will bear interest at a negotiated interest rate. During the third quarter of 2004, we received undiscounted advances aggregating $126 million under the forward. Such advances were subsequently repaid during the quarter.

During the fourth quarter of 2004, we entered into call option contracts pursuant to which we contemporaneously (i) sold call options on 1,210,000 shares of LMI Series A common stock at exercise prices ranging from $39.5236 to $41.7536, and (ii) purchased call options on 1,210,000 shares with an exercise price of zero. As structured with the counterparty, these instruments have similar financial mechanics to prepaid put option

contracts. Under the terms of the contracts, we can elect cash or physical settlement. All of the contracts expired during the first quarter of 2005 and were settled for cash.

Credit Risk

In addition to the risks described above, we are also exposed to the risk that our counterparties will default on their obligations to us under the above-described derivative instruments. Based on our assessment of the credit worthiness of the counterparties, we do not anticipate any such default.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated financial statements of Liberty Media International, Inc. are filed under this Item, beginning on Page II-38. The financial statement schedules and the separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

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

None.

Item 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer, principal accounting officer and principal financial officer (the Executives), of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that our disclosure controls and procedures were effective during the fourth quarter of 2004 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the fourth quarter of 2004 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Liberty Media International, Inc. (a Delaware corporation) and subsidiaries (as more fully described in Note 1) as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

KPMG LLP
Denver, Colorado
March 11, 2005

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	**2003**
	amounts in thousands	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,531,486	12,753
Trade receivables, net	201,519	14,162
Other receivables, net	165,631	968
Other current assets	293,947	16,453
Total current assets	3,192,583	44,336
Investments in affiliates, accounted for using the equity method, and related receivables (note 6)	1,865,642	1,740,552
Other investments (note 7)	838,608	450,134
Property and equipment, net (note 9)	4,303,099	97,577
Intangible assets not subject to amortization:		
Goodwill (note 9)	2,667,279	525,576
Franchise rights and other	230,674	163,450
	2,897,953	689,026
Intangible assets subject to amortization, net (note 9)	382,599	4,504
Deferred tax assets (note 11)	77,313	583,945
Other assets, net	144,566	76,963
Total assets	$ 13,702,363	3,687,037

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31, 2004	December 31, 2003
	amounts in thousands	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 363,549	20,629
Accrued liabilities	526,382	12,556
Subscriber advance payments and deposits	353,069	283
Accrued interest	89,612	976
Current portion of accrued stock-based compensation (notes 3 and 13)	37,017	15,052
Derivative instruments (note 8)	14,636	21,010
Current portion of debt (note 10)	36,827	12,426
Total current liabilities	1,421,092	82,932
Long-term debt (note 10)	4,981,960	41,700
Deferred tax liabilities (note 11)	458,138	135,811
Other long-term liabilities	409,998	7,948
Total liabilities	7,271,188	268,391
Commitments and contingencies (note 19)		
Minority interests in subsidiaries	1,204,369	78
Stockholders Equity:		
Series A common stock, $.01 par value. Authorized 500,000,000 shares; issued 168,514,962 and nil shares at December 31, 2004 and 2003, respectively	1,685	
Series B common stock, $.01 par value. Authorized 50,000,000 shares; issued and outstanding 7,264,300 and nil shares at December 31, 2004 and 2003, respectively	73	
Series C common stock, $.01 par value. Authorized 500,000,000 shares; no shares issued at December 31, 2004 or 2003		
Additional paid-in capital	7,001,635	
Accumulated deficit	(1,662,707)	(1,630,949)
Accumulated other comprehensive earnings (loss), net of taxes (note 18)	14,010	(46,566)
Treasury stock, at cost (note 12)	(127,890)	
Parent s investment		5,096,083

Total stockholders equity		5,226,806	3,418,568
Total liabilities and stockholders equity	$	13,702,363	3,687,037

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

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2004	**2003**	**2002**
	amounts in thousands, except per share amounts		
Revenue (note 14)	$ 2,644,284	108,390	100,255
Operating costs and expenses:			
Operating (other than depreciation) (note 14)	1,068,292	50,306	43,931
Selling, general and administrative (SG&A) (note 14)	687,844	40,337	42,269
Stock-based compensation charges (credits) primarily SG&A (notes 3 and 13)	142,762	4,088	(5,815)
Depreciation and amortization	960,888	15,114	13,087
Impairment of long-lived assets (note 9)	69,353		45,928
Restructuring and other charges (note 17)	29,018		
	2,958,157	109,845	139,400
Operating loss	(313,873)	(1,455)	(39,145)
Other income (expense):			
Interest expense (note 14)	(288,532)	(2,178)	(3,943)
Interest and dividend income (note 14)	65,607	24,874	25,883
Share of earnings (losses) of affiliates, net (note 6)	38,710	13,739	(331,225)
Realized and unrealized gains (losses) on derivative instruments, net (note 8)	(54,947)	12,762	(16,705)
Foreign currency transaction gains (losses), net	92,305	5,412	(8,267)
Gains on exchanges of investment securities (notes 6 and 7)	178,818		122,618
Other-than-temporary declines in fair values of investments (note 7)	(18,542)	(6,884)	(247,386)
Gains on extinguishment of debt (note 10)	35,787		
Gains (losses) on disposition of investments, net (notes 6 and 7)	43,714	(4,033)	(287)
Other income (expense), net	(7,931)	6,651	2,476
	84,989	50,343	(456,836)
Earnings (loss) before income taxes and minority interests	(228,884)	48,888	(495,981)
Income tax benefit (expense)	17,449	(27,975)	166,121
Minority interests in losses (earnings) of subsidiaries	179,677	(24)	(27)

Earnings (loss) before cumulative effect of accounting change		(31,758)	20,889	(329,887)
Cumulative effect of accounting change, net of taxes (note 3)				(238,267)
Net earnings (loss)	$	(31,758)	20,889	(568,154)
Pro forma earnings (loss) per common share (note 3):				
Basic and diluted	$	(0.20)	0.14	

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

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LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

	Year Ended December 31,		
	2004	**2003**	**2002**
	amounts in thousands		
Net earnings (loss)	$ (31,758)	20,889	(568,154)
Other comprehensive earnings (loss), net of taxes (note 18):			
Foreign currency translation adjustments	165,315	102,321	(173,715)
Reclassification adjustment for foreign currency translation gains included in net earnings (loss)	(36,174)	(27)	
Unrealized gains (losses) on available-for-sale securities	(1,450)	111,594	(39,526)
Reclassification adjustment for net (gains) losses on available-for-sale securities included in net earnings (loss)	(120,842)		86,175
Effect of change in estimated blended state income tax rate (note 11)	2,745		
Other comprehensive earnings (loss)	9,594	213,888	(127,066)
Comprehensive earnings (loss)	$ (22,164)	234,777	(695,220)

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

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

	Common stock Series A	Series B	Series C	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive earnings (loss), net of taxes	Treasury stock, at cost	Parent s investment	Total stockholders equity
					amounts in thousands				
Balance at January 1, 2002	$				(1,083,684)	(133,388)		3,256,665	2,039,593
Net loss					(568,154)				(568,154)
Other comprehensive loss (note 18)						(127,066)			(127,066)
Reallocation of enterprise-level goodwill from parent (note 3)								118,000	118,000
Intercompany tax allocation (note 11)								3,988	3,988
Allocation of corporate overhead (note 14)								10,794	10,794
Net cash transfers from parent								1,231,738	1,231,738
Balance at December 31, 2002					(1,651,838)	(260,454)		4,621,185	2,708,893
Net earnings					20,889				20,889
Other comprehensive earnings (note 18)						213,888			213,888
Intercompany tax allocation (note 11)								(14,774)	(14,774)
Allocation of corporate overhead (note 14)								10,873	10,873

Net cash transfers from parent				478,799	478,799
Balance at December 31, 2003		(1,630,949)	(46,566)	5,096,083	3,418,568
Net loss		(31,758)			(31,758)
Other comprehensive earnings (note 18)			9,594		9,594
Intercompany tax allocation (note 11)				6,133	6,133
Allocation of corporate overhead (note 14)				9,357	9,357
Issuance of Liberty Media Corporation common stock in acquisition (note 5)				152,122	152,122
Contribution of cash, investments and other net liabilities in connection with spin off (note 2)			50,982	304,578	355,560
Assumption by Liberty Media Corporation of obligation for stock appreciation rights in connection with spin off (note 2)				5,763	5,763
Adjustment due to issuance of stock by subsidiaries and affiliates and other changes in subsidiary equity, net of taxes (note 12)	6,049			1,025	7,074
				654,250	654,250

Net cash transfers from parent								
Change in capitalization in connection with spin off (note 2)	1,399	61	6,227,851				(6,229,311)	
Common stock issued in rights offering (note 2)	283	12	735,366					735,661
Stock issued for stock option exercises (note 13)	3		11,987					11,990
Repurchase of common stock (note 12)						(127,890)		(127,890)
Stock-based compensation (notes 3 and 13)			20,382					20,382
Balance at December 31, 2004	$ 1,685	73	7,001,635	(1,662,707)	14,010	(127,890)		5,226,806

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

LIBERTY MEDIA INTERNATIONAL, INC.
(See note 1)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2004	2003	2002
	amounts in thousands		
Cash flows from operating activities:			
Net earnings (loss)	$ (31,758)	20,889	(568,154)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Stock-based compensation charges (credits)	142,762	4,088	(5,815)
Cumulative effect of accounting change			238,267
Depreciation and amortization	960,888	15,114	13,087
Impairment of long-lived assets	69,353		45,928
Restructuring and other charges	29,018		
Amortization of deferred financing costs	21,735	117	134
Share of losses (earnings) of affiliates, net	(38,710)	(13,739)	331,225
Realized and unrealized losses (gains) on derivative instruments, net	54,947	(12,762)	16,705
Foreign currency transaction losses (gains), net	(92,305)	(5,412)	8,267
Gain on exchanges of investment securities	(178,818)		(122,618)
Other-than-temporary declines in fair values of investments	18,542	6,884	247,386
Gains on extinguishment of debt	(35,787)		
Losses (gains) on disposition of investments, net			