

LIBERTY MEDIA INTERNATIONAL INC

Form PRER14A

April 29, 2005

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**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. 2)**

Filed by the Registrant:

Filed by a Party other than the Registrant:

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Liberty Media International, Inc.

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(Name of Registrant as Specified in its Charter)

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N/A

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Liberty Media International, Inc. Series A Common Stock, par value \$.01 per share

Liberty Media International, Inc. Series B Common Stock, par value \$.01 per share

UnitedGlobalCom, Inc. Class A Common Stock, par value \$.01 per share

UnitedGlobalCom, Inc. Class C Common Stock, par value \$.01 per share

(2) Aggregate number of securities to which transaction applies:

As of December 31, 2004, (1) 167,205,861 outstanding shares of LMI Series A Common Stock, which include options to acquire 1,690,899 shares of LMI Series A Common Stock, (2) 10,331,016 outstanding shares of LMI Series B Common Stock, which include options to acquire 3,066,716 shares of LMI Series B Common Stock, (3) 429,845,505 outstanding shares of UGC Class A Common Stock, which include (x) equity incentive awards to acquire 48,617,610 shares of UGC Class A Common Stock, (y) 1,629,284 shares of UGC Class A Common Stock placed in escrow in connection with a pending transaction and (z) 15,396,224 shares of UGC Class A Common Stock reserved for issuance in connection with certain outstanding claims, and (4) 2,141,272 outstanding shares of UGC Class C Common Stock.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

Based upon the averages of the high and low prices reported for the LMI Series A Common Stock, LMI Series B Common Stock and UGC Class A Common Stock, respectively, on the Nasdaq National Market on February 10, 2005, which were \$44.54, \$47.18 and \$9.64, respectively. The filing fee is being calculated based upon an aggregate transaction value of \$12,099,118,914.10, which is obtained by: (1) multiplying (x) the number of outstanding shares of LMI Series A Common Stock listed above by (y) \$44.54, and (2) adding thereto the product of (x) the number of outstanding shares of LMI Series B Common Stock listed above and (y) \$47.18, and (3) adding thereto the product of (x) the number of outstanding shares of UGC Class A Common Stock listed above and (y) \$9.64, and (4) adding thereto the product of (x) the number of outstanding shares of UGC Class C Common Stock listed above and (y) \$9.64 (shares of UGC Class C Common Stock are not publicly traded, but they are convertible at the option of the holder into shares of UGC Class A Common Stock, on a one-to-one basis).

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- (4) Proposed maximum aggregate value of transaction:  
\$12,099,118,914.10
  
  - (5) Total fee paid:  
\$1,424,066.30, estimated pursuant to Section 14(g) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder, on the basis of \$117.70 per million of the estimated maximum aggregate value of the transaction.
- þ Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
- (1) Amount previously paid:
  - (2) Form, schedule or registration statement no.:
  - (3) Filing party:
  - (4) Date filed:
-

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*The information in this joint proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this joint proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.*

**Subject to completion dated April 29, 2005**

[ ], 2005

To the stockholders of Liberty Media International, Inc.:

The 2005 Annual Meeting of Stockholders of Liberty Media International, Inc. (LMI) will be held at [ ], on [ ], 2005 at [ ] a.m., local time. At the annual meeting, you will be asked to consider and vote on the merger proposal, a proposal to adopt the Agreement and Plan of Merger, dated as of January 17, 2005, among LMI, UnitedGlobalCom, Inc. (UGC), Liberty Global, Inc. and two subsidiaries of Liberty Global. If the merger proposal is approved, LMI and UGC will be combined under a new parent company named Liberty Global, Inc. The combination of the two companies will create a global broadband company with significant scale outside of the United States. LMI and UGC will each designate one-half of the directors of Liberty Global, and the senior management of Liberty Global will consist of senior executives of LMI and UGC.

LMI currently controls UGC. In the mergers combining LMI and UGC:

LMI stockholders will receive, for each share of LMI Series A or Series B common stock they own, one share of the corresponding series of Liberty Global stock; and

UGC stockholders (other than LMI and its wholly owned subsidiaries) will have the right to elect to receive, for each share of UGC common stock they own, 0.2155 of a share of Liberty Global Series A common stock or \$9.58 in cash. The cash election will be subject to proration, so that the total cash consideration paid does not exceed 20% of the aggregate value of the merger consideration payable to the public stockholders of UGC.

The exchange ratios at which LMI shares and UGC shares will be converted into Liberty Global shares are fixed, and there will be no adjustment in the exchange ratios for any changes in the market price of either the LMI or UGC common stock. Depending on the number of UGC stockholders who make the cash election, we estimate that former LMI stockholders will own between 69% and 73% of the equity and between 75% and 79% of the aggregate voting power of Liberty Global, with the remaining percentages of equity and voting power being owned by the former UGC stockholders, other than LMI and its wholly owned subsidiaries (based upon the LMI Series A closing stock price on April 12, 2005 and outstanding share information for UGC as of March 31, 2005). It is anticipated that Liberty Global Series A and Series B common stock will be listed on the Nasdaq National Market under the symbols LBTYA and LBTYB, respectively, the same symbols under which LMI common stock currently trades.

At the annual meeting, you will also be asked to consider and vote upon:

the LMI election of directors proposal, a proposal to elect David E. Rapley and Larry E. Romrell to serve as Class I members of our board of directors until the 2008 annual meeting of LMI stockholders or until their successors are elected;

the LMI incentive plan proposal, a proposal to approve the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005);

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the LMI auditors ratification proposal, a proposal to approve the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005; and

such other proposals, if any, as may properly come before the annual meeting.

This document describes the annual meeting, the proposals to be considered and voted upon at the annual meeting and related matters. Our board of directors has approved the merger agreement and the merger involving LMI and recommends that you vote FOR the adoption of the merger agreement. Our board has also considered and approved each of the other proposals described above and recommends that you vote FOR each of them.

We are very excited about the prospective business combination of our company with UGC, and we look forward to obtaining your approval of the merger proposal and the other proposals being submitted to you at the annual meeting.

***Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the annual meeting, please vote as soon as possible to make sure that your shares are represented.***

Thank you for your continued support and interest in our company.

Sincerely,

John C. Malone  
*Chairman of the Board, Chief Executive Officer  
and President  
Liberty Media International, Inc.*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the mergers or the securities being offered in the mergers, has passed upon the merits or fairness of the mergers or passed upon the adequacy or accuracy of the disclosure in this booklet. Any representation to the contrary is a criminal offense.

**Investing in Liberty Global's securities involves risks. See Risk Factors beginning on page 59.**

The accompanying joint proxy statement/prospectus is dated [ ], 2005 and is first being mailed on or about [ ], 2005 to LMI stockholders of record as of 5:00 p.m., New York City time, on May 3, 2005.

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*The information in this joint proxy statement/prospectus is not complete and may be changed. We may not sell the securities offered by this joint proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission is effective. This joint proxy statement/prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where an offer or solicitation is not permitted.*

**Subject to completion dated April 29, 2005**

[ ], 2005

To the stockholders of UnitedGlobalCom, Inc.:

UnitedGlobalCom, Inc. (UGC) has entered into a merger agreement with Liberty Media International, Inc. (LMI) providing for the combination of our two companies under a new parent company named Liberty Global, Inc. The combination of our two companies will create a global broadband company with significant scale outside of the United States. LMI and UGC will each designate one-half of the directors of Liberty Global, and the senior management of Liberty Global will consist of senior executives of LMI and UGC. LMI currently controls UGC. In the mergers combining LMI and UGC:

UGC stockholders (other than LMI and its wholly owned subsidiaries) will have the right to elect to receive, for each share of UGC common stock they own, 0.2155 of a share of Liberty Global Series A common stock or \$9.58 in cash. The cash election will be subject to proration, so that the total cash consideration paid does not exceed 20% of the aggregate value of the merger consideration payable to the public stockholders of UGC; and

LMI stockholders will receive, for each share of LMI Series A or Series B common stock they own, one share of the corresponding series of Liberty Global stock.

The exchange ratios at which LMI shares and UGC shares will be converted into Liberty Global shares are fixed, and there will be no adjustment in the exchange ratios for any changes in the market price of either the LMI or UGC common stock. Depending on the number of UGC stockholders who make the cash election, we estimate that former UGC stockholders (other than LMI and its wholly owned subsidiaries) will own between 27% and 31% of the equity and between 21% and 25% of the aggregate voting power of Liberty Global, with the remaining percentages of equity and voting power being owned by the former LMI stockholders (based upon the LMI Series A closing stock price on April 12, 2005 and outstanding share information for UGC as of March 31, 2005). It is anticipated that Liberty Global Series A and Series B common stock will be listed on the Nasdaq National Market under the symbols LBTYA and LBTYB, respectively, the same symbols under which LMI common stock currently trades.

UGC is calling a special meeting of its stockholders to consider and vote on the merger agreement and the merger involving UGC. The special meeting will be held at [ ], on [ ], 2005 at [ ] a.m., local time

The board of directors of UGC has approved the merger agreement and the merger involving UGC and recommends that UGC stockholders vote **FOR** the adoption of the merger agreement. In approving the merger agreement and making its recommendation, the UGC board considered (1) the unanimous determination of a special committee of members of the UGC board (who are independent under the rules of the Nasdaq Stock Market and have no relationship with LMI or any of its affiliates that the special committee viewed as undermining its independence) that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC and (2) the approval by the special committee of the merger agreement in compliance with the rules of the Nasdaq Stock Market. The special committee was formed in compliance

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with the rules of the Nasdaq Stock Market for purposes of negotiating exclusively on UGC's behalf any transaction with LMI.

***Your vote is very important, regardless of the number of shares you own. Whether or not you plan to attend the special meeting, please vote as soon as possible to make sure that your shares are represented. If you do not vote, it will have the same effect as a vote AGAINST the adoption of the merger agreement.***

We are very excited about the prospective business combination of our company with LMI, and we look forward to obtaining your approval at the special meeting.

Sincerely,

Gene W. Schneider  
*Chairman of the Board*  
*UnitedGlobalCom, Inc.*

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the mergers or the securities being offered in the mergers, has passed upon the merits or fairness of the mergers or passed upon the adequacy or accuracy of the disclosure in this booklet. Any representation to the contrary is a criminal offense.

**Investing in Liberty Global's securities involves risks. See Risk Factors beginning on page 59.**

The accompanying joint proxy statement/prospectus is dated [ ], 2005 and is first being mailed on or about [ ], 2005 to UGC stockholders of record as of 5:00 p.m., New York City time, on May 3, 2005.

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**REFERENCES TO ADDITIONAL INFORMATION**

LMI and UGC are each subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, LMI and UGC each file periodic reports and other information with the Securities and Exchange Commission. In addition, this joint proxy statement/ prospectus incorporates important business and financial information about UGC from other documents that are not included in or delivered with this joint proxy statement/ prospectus. This information is available to you without charge upon your written or oral request. You can obtain copies of documents filed by LMI and UGC with the Securities and Exchange Commission, including the UGC documents incorporated by reference in this joint proxy statement/ prospectus, through the Securities and Exchange Commission website at <http://www.sec.gov> or by contacting LMI or UGC, as applicable, by writing or telephoning the office of Investor Relations:

Liberty Media International, Inc.  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (800) 783-7676

UnitedGlobalCom, Inc.  
4643 South Ulster Street, Suite 1300  
Denver, Colorado 80237  
Telephone: (303) 770-4001

**If you would like to request any documents from either LMI or UGC, please do so by [                      ], 2005 in order to receive them before the applicable stockholders meeting.** If you request any documents, they will be mailed to you by first class mail, or another equally prompt means, within one business day after your request is received.

See **Additional Information**    **Where You Can Find More Information**    beginning on page 161.

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**LIBERTY MEDIA INTERNATIONAL, INC.  
Notice of Annual Meeting of Stockholders  
to be Held [                      ], 2005**

Dear Liberty Media International, Inc. Stockholder:

You are cordially invited to attend, and notice is hereby given of, the 2005 Annual Meeting of Stockholders of Liberty Media International, Inc. (LMI) to be held at [                      ], on [                      ], 2005 at [                      ] a.m., local time, for the following purposes:

1. To consider and vote upon a proposal (which we refer to as the merger proposal) to adopt the Agreement and Plan of Merger, dated as of January 17, 2005, among LMI, UnitedGlobalCom, Inc. (UGC), Liberty Global, Inc. and two subsidiaries of Liberty Global pursuant to which, among other things, LMI and UGC would become wholly owned subsidiaries of Liberty Global and each outstanding share of LMI common stock would be exchanged for one share of the corresponding series of Liberty Global common stock;
2. To consider and vote upon a proposal (which we refer to as the LMI election of directors proposal) to elect David E. Rapley and Larry E. Romrell to serve as Class I members of our board of directors until the 2008 annual meeting of LMI stockholders or until their successors are elected;
3. To consider and vote upon a proposal (which we refer to as the LMI incentive plan proposal) to approve the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005);
4. To consider and vote upon a proposal (which we refer to as the LMI auditors ratification proposal) to ratify the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005; and
5. To transact such other business as may properly be presented at the meeting or any postponements or adjournments of the meeting.

Holders of record of LMI common stock as of 5:00 p.m., New York City time, on May 3, 2005, the record date for the LMI annual meeting, will be entitled to notice of and to vote at the LMI annual meeting or any adjournment or postponement thereof. The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI common stock outstanding on the record date, voting together as a single class, is required to approve the merger proposal. A plurality of the affirmative votes of the shares of LMI common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Rapley and Romrell as Class I members of LMI's board of directors pursuant to the LMI election of directors proposal. The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI common stock outstanding on the record date that are present at the annual meeting, in person or by proxy, voting together as a single class, is required to approve the LMI incentive plan proposal and the LMI auditors ratification proposal. A list of stockholders entitled to vote at the LMI annual meeting will be available at the office of LMI for review by any LMI stockholder, for any purpose germane to the LMI annual meeting, for at least 10 days prior to the LMI annual meeting.

If the merger proposal is approved, the LMI board of directors, including the members elected at the annual meeting, will be succeeded by a board of directors that we expect will be comprised of officers of Liberty Global because LMI will become a subsidiary of Liberty Global in the mergers.

Pursuant to a voting agreement entered into between John C. Malone, the Chairman of the Board, Chief Executive Officer and President of LMI, and UGC, Mr. Malone has agreed to vote the shares of LMI

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Series A common stock and LMI Series B common stock owned by him or which he has the right to vote (representing, as of March 31, 2005, approximately 26.5% of the outstanding voting power of LMI) **FOR** the merger proposal.

We describe the merger proposal, as well as the other enumerated proposals to be considered at the annual meeting, in more detail in the accompanying joint proxy statement/ prospectus. We encourage you to read the joint proxy statement/ prospectus in its entirety before voting.

**The board of directors of LMI unanimously recommends that you vote FOR the approval of the merger proposal and each of the other enumerated proposals to be considered and voted upon at the annual meeting.**

Your vote is very important, regardless of the number of shares you own. To make sure your shares are represented at the annual meeting, please vote as soon as possible, whether or not you plan to attend the annual meeting. You may vote by proxy in any one of the following ways:

Use the toll-free telephone number shown on the proxy card;

Use the Internet website shown on the proxy card; or

Complete, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. It requires no postage if mailed in the United States.

You may revoke your proxy in the manner described in the accompanying joint proxy statement/ prospectus. If you attend the LMI annual meeting, you may vote your shares in person even if you have previously submitted a proxy.

By Order of the Board of Directors,

Elizabeth M. Markowski  
*Secretary*

Englewood, Colorado

[            ], 2005

**PLEASE COMPLETE, EXECUTE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY OR VOTE BY TELEPHONE OR OVER THE INTERNET, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE LMI ANNUAL MEETING. IF YOU HAVE ANY QUESTIONS ABOUT THE PROPOSALS OR ABOUT VOTING YOUR LMI SHARES, PLEASE CALL D.F. KING & CO. AT (800) 829-6551.**

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Your vote is very important, regardless of the number of shares you own. To make sure your shares are represented at the special meeting, please vote as soon as possible, whether or not you plan to attend the special meeting. You may vote by proxy in any one of the following ways:

Use the toll-free telephone number shown on the proxy card;

Use the Internet website shown on the proxy card; or

Complete, sign, date and promptly return the enclosed proxy card in the postage-paid envelope. It requires no postage if mailed in the United States.

You may revoke your proxy in the manner described in the accompanying joint proxy statement/ prospectus. If you attend the UGC special meeting, you may vote your shares in person even if you have previously submitted a proxy.

By Order of the Board of Directors,

Ellen P. Spangler  
*Secretary*

Denver, Colorado  
[            ], 2005

**PLEASE COMPLETE, EXECUTE AND RETURN THE ENCLOSED PROXY CARD PROMPTLY OR VOTE BY TELEPHONE OR OVER THE INTERNET, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE UGC SPECIAL MEETING. IF YOU HAVE ANY QUESTIONS ABOUT THE MERGER PROPOSAL OR ABOUT VOTING YOUR UGC SHARES, PLEASE CALL D.F. KING & CO. AT (800) 628-8208.**

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**QUESTIONS AND ANSWERS**

*The questions and answers below highlight only selected information from this joint proxy statement/prospectus. They do not contain all of the information that may be important to you. You should read carefully the entire joint proxy statement/prospectus, including the appendices included herein, and the additional documents incorporated by reference in this joint proxy statement/prospectus to fully understand the matters being considered at the stockholders meetings.*

**Concerning the Mergers**

**Q: What is the proposed business combination transaction for which LMI stockholders and UGC stockholders are being asked to vote?**

A: LMI and UGC have agreed to combine their businesses by each merging with a separate wholly owned subsidiary of a new parent company named Liberty Global, Inc. The merger involving LMI requires the approval of the stockholders of LMI, while the merger involving UGC requires the approval of the stockholders of UGC (including a majority of the minority approval). Stockholders of LMI and stockholders of UGC (other than LMI and its wholly owned subsidiaries) would become stockholders of Liberty Global.

**Q: What will holders of LMI common stock receive as a result of the mergers?**

A: Each share of LMI Series A common stock or LMI Series B common stock owned by an LMI stockholder will be exchanged for one share of the corresponding series of Liberty Global common stock. Each series of Liberty Global common stock will have the same rights, powers and preferences as the corresponding series of LMI common stock.

**Q: What will holders of UGC common stock receive as a result of the mergers?**

A: Stockholders of UGC (other than LMI and its wholly owned subsidiaries) may elect to receive, for each share of UGC common stock owned by them, either:

0.2155 of a share of Series A common stock of Liberty Global (plus cash in lieu of any fractional share interest), which we refer to as the **stock election**; or

\$9.58 in cash, without interest, which we refer to as the **cash election**.

UGC stockholders who make the cash election will be subject to proration so that, in the aggregate, the cash consideration paid to UGC stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC's public stockholders. If proration is made, any share as to which a UGC stockholder elected to receive cash but with respect to which such election is denied due to proration will be converted into 0.2155 of a share of Series A common stock of Liberty Global (plus cash in lieu of any fractional share interest). See The Transaction Agreements Merger Agreement UGC Stockholders Making Stock and Cash Elections; Proration.

**Q: Where will Liberty Global common stock trade?**

A: We expect Liberty Global Series A common stock and Liberty Global Series B common stock to trade on the Nasdaq Stock Market, following the mergers, under the symbols LBTYA and LBTYB, respectively, the same symbols under which LMI common stock currently trades.

**Q: How do UGC stockholders make their cash election or stock election?**

A: A form of election is included with the joint proxy statement/prospectus being mailed to UGC stockholders. To make a cash election or a stock election, UGC stockholders must properly complete, sign and send the form of



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election, together with the shares of UGC common stock as to which the election relates, to EquiServe Trust Company N.A., the exchange agent, at the following address:  
EquiServe Trust Company N.A.

|                              |                              |                              |
|------------------------------|------------------------------|------------------------------|
| By Mail:                     | By Overnight Delivery:       | By Hand:                     |
| EquiServe Trust Company N.A. | EquiServe Trust Company N.A. | EquiServe Trust Company N.A. |
| LMI/UGC Transaction          | LMI/UGC Transaction          | LMI/UGC Transaction          |
| Attn: Corp. Actions          | Attn: Corp. Actions          | Attn: Corp. Actions          |
| P.O. Box 859208              | 161 Baystate Drive           | 17 Battery Place, 11th Floor |
| Braintree, MA 02185-9208     | Braintree, MA 02184          | New York, NY 10004           |

Questions regarding the cash or stock elections should be directed to D.F. King & Co. at:  
D.F. King & Co., Inc.  
48 Wall Street  
New York, NY 10005  
(800) 628-8208

The exchange agent must receive the form of election and UGC shares to which the election relates by the election deadline. The election deadline will be 5:00 p.m., New York City time, on [ ], 2005, which we will extend if the mergers are not expected to be completed on or before the fourth business day after the initial election deadline.

If you own shares of UGC common stock in street name through a broker, bank or other nominee and you wish to make an election, you should seek instructions from the broker, bank or other nominee holding your shares concerning how to make a valid election.

**Q: May UGC stockholders make the cash election for some of their UGC shares and the stock election for other UGC shares they own?**

A: Yes. UGC stockholders who properly complete the form of election may make the cash election for some of their shares and the stock election for other UGC shares they own. As mentioned above, a UGC stockholder who makes a cash election will be subject to possible proration.

**Q: May UGC stockholders change their election after they have submitted their form of election?**

A: Yes, as long as the exchange agent receives from the stockholder, before the election deadline, a written notice of revocation or a new election form. If an election form was submitted by a broker, bank or other nominee, the broker, bank or other nominee should be contacted as to how to revoke or change the election so submitted.

**Q: Where can UGC stockholders obtain additional forms of election?**

A: Additional forms of election can be obtained by calling D.F. King & Co. at (800) 628-8208.

**Q: May UGC stockholders trade their shares of UGC common stock after making an election and submitting their shares to the exchange agent?**

A: No. UGC stockholders will be unable to sell or otherwise transfer their shares of UGC common stock once they have been submitted to the exchange agent in connection with their election, unless and until their election is revoked and their shares are returned to them. The exchange agent will promptly return shares of UGC common stock following receipt of a written notice of revocation as to those shares or if the merger agreement is terminated.

**Q: What if a UGC stockholder fails to timely submit an election form?**

A: If the exchange agent does not receive a properly completed form of election from a UGC stockholder before the election deadline, together with the shares of UGC common stock as to which the election relates, then that stockholder will be treated as though he or she made the stock election. UGC stockholders bear the risk of delivery and should send their election form and stock certificates by courier or by hand to the appropriate addresses shown in the form of election. UGC stockholders who hold their shares in street name should promptly contact their broker, bank or other nominee as to their choice of election to ensure that their election and shares of UGC stock are timely received by the exchange agent.

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**Q: May a UGC stockholder who votes against the UGC merger submit a form of election?**

A: Yes. Irrespective of the manner in which a UGC stockholder votes on the merger proposal, that stockholder should submit a form of election in the event the merger proposal is adopted. UGC stockholders who do not make an election will not be entitled to any portion of the cash consideration and will be treated as though they have made the stock election as to all of their shares of UGC common stock.

**Q: Can LMI stockholders make the cash election?**

A: No. If the mergers are approved, each share of LMI Series A common stock or LMI Series B common stock owned by an LMI stockholder will be exchanged for one share of the corresponding series of Liberty Global common stock. Because LMI stockholders do not have an election, they will not receive an election form with the joint proxy statement/ prospectus being mailed to them.

**Q: What stockholder approvals are required to approve the merger proposal?**

A: In order for the mergers to occur, the LMI stockholders must approve the merger proposal at the LMI annual meeting and the UGC stockholders must approve the merger proposal at the UGC special meeting.

For LMI, the approval of the merger proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI common stock outstanding on the record date for the LMI annual meeting, voting together as a single class.

Pursuant to a voting agreement entered into between John C. Malone, the Chairman of the Board, Chief Executive Officer and President of LMI, and UGC, Mr. Malone has agreed to vote the shares of LMI Series A common stock and LMI Series B common stock owned by him or which he has the right to vote (representing, as of March 31, 2005, approximately 26.5% of the aggregate voting power of LMI) in favor of the approval of the merger proposal. See The Transaction Agreements Voting Agreement. In addition, the directors and executive officers of LMI (other than Mr. Malone), who together beneficially own shares of LMI common stock representing approximately 3.3% of LMI's aggregate voting power, as of March 31, 2005, have indicated to LMI that they intend to vote FOR the merger proposal at the LMI annual meeting.

For UGC, the approval of the merger proposal requires a vote of the holders of the shares of UGC common stock outstanding on the record date for the UGC special meeting, with all classes voting together as a single class, that satisfies two criteria:

first, the merger proposal must be approved by the affirmative vote of the holders of at least a majority of the aggregate voting power of the outstanding shares of UGC common stock, which we refer to as the **statutory approval**; and

second, the merger proposal must be approved by the affirmative vote of the holders of at least a majority of the aggregate voting power of the outstanding shares of UGC common stock, exclusive of shares beneficially owned by LMI, Liberty Media Corporation (Liberty) or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC, which we refer to as the **minority approval**.

LMI, which beneficially owns shares of UGC common stock representing approximately 91% of the aggregate voting power of all UGC shares as of March 31, 2005, has agreed in the merger agreement to vote those shares in favor of the merger proposal. As a result, the statutory approval is assured. However, because the votes of LMI and its wholly owned subsidiaries, LMI's directors and executive officers and UGC's directors and executive officers do not count for purposes of the minority approval, approval of the merger proposal at the UGC special meeting is dependent upon the vote of the public stockholders of UGC.

**Q: What do LMI and UGC stockholders need to do to vote on the merger proposal?**

A: After carefully reading and considering the information contained in this joint proxy statement/ prospectus, LMI and UGC stockholders should complete, sign and date their proxy cards and mail them in the enclosed return envelope, or vote by the telephone or through the Internet, in each case as soon as possible so that their shares are represented and voted at the applicable stockholders meeting. Stockholders who have shares registered in the name of a broker, bank or other nominee should follow the voting instruction card provided by their broker, bank or other nominee in instructing them how to vote their shares.

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**Q: If shares are held in street name by a broker, bank or other nominee, will the broker, bank or other nominee vote those shares for the beneficial owner on the merger proposal?**

A: If you hold your shares in street name and do not provide voting instructions to your broker, bank or other nominee, your shares will not be voted on the merger proposal. Accordingly, your broker, bank or other nominee will vote your shares held in street name only if you provide instructions on how to vote. You should follow the directions your broker, bank or other nominee provides to you regarding how to vote your shares. If your shares are held in street name and they are not voted on the merger proposal, that will have the same effect as a vote **AGAINST** the merger proposal.

**Q: What if an LMI or UGC stockholder does not vote on the merger proposal?**

A: If you fail to respond with a vote on the merger proposal, it will have the same effect as a vote **AGAINST** the merger proposal. If you respond but do not indicate how you want to vote, your proxy will be counted as a vote **FOR** the merger proposal. If you respond and indicate that you are abstaining from voting, your proxy will have the same effect as a vote **AGAINST** the merger proposal.

**Q: May stockholders change their vote on the merger proposal after returning a proxy card or voting by telephone or over the Internet?**

A: Yes. Before their proxy is voted at the applicable stockholders meeting, LMI or UGC stockholders who want to change their vote on the merger proposal may do so by telephone or over the Internet (if they originally voted by telephone or over the Internet), by voting in person at the applicable stockholders meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to the address below:

in the case of an LMI stockholder, to: LMI/UGC Transaction, EquiServe Trust Company, N.A.,  
P.O. Box 8078, Edison, New Jersey 08818-8687; and

in the case of a UGC stockholder, to: EquiServe Trust Company, N.A., LMI/UGC Transaction,  
P.O. Box 859208, Braintree, Massachusetts 02185.

Any signed proxy revocation or new signed proxy must be received before the start of the applicable stockholders meeting. Your attendance at the applicable stockholders meeting will not, by itself, revoke your proxy.

If your shares are held in an account by a broker, bank or other nominee who you previously contacted with voting instructions, you should contact your broker, bank or other nominee to change your vote.

**Q: When do LMI and UGC expect to complete the mergers?**

A: We expect to complete the mergers as quickly as possible once all the conditions to the mergers, including obtaining the approvals of our stockholders at the respective stockholders meetings of LMI and UGC, are fulfilled. We currently expect to complete the mergers within a few days following the stockholders meetings.

**Q: Should UGC stockholders send their proxy cards to the same address as they send their forms of election and UGC shares?**

A: No. Separate envelopes are enclosed for UGC stockholders to return (1) their forms of election and UGC shares and (2) their proxy cards. **UGC stockholders should check to be sure they are mailing their materials in the proper envelope and to the proper address. UGC stockholders are urged to please NOT send their election form and UGC shares with their proxy cards, or vice versa.**

**Q: Should LMI stockholders send their LMI shares with their proxy cards?**

A: No. LMI stockholders will receive written instructions from the exchange agent after the mergers are completed on how to exchange their LMI shares for Liberty Global shares. **LMI stockholders are urged to please NOT send their LMI shares with their proxy cards.**

**Q: Who can help answer questions about the voting and election procedures and the mergers?**

A: LMI and UGC have retained D.F. King & Co. to serve as an information agent and proxy solicitor in connection with each of the stockholders meetings and the mergers.

LMI stockholders who have questions about the LMI annual meeting, including the voting procedures, or the mergers should call D.F. King & Co. at (800) 829-6551 with their questions.

UGC stockholders who have questions about the UGC special meeting, including the voting and election procedures, or the mergers should call D.F. King & Co. at (800) 628-8208 with their questions.

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In addition, LMI stockholders may call LMI's Investor Relations Department at (800) 783-7676, and UGC stockholders may call UGC's Investor Relations Department at (303) 770-4001.

**Concerning the LMI Annual Meeting**

**Q: Why is LMI having its annual meeting at this time?**

A: LMI's common stock is traded on the Nasdaq National Market, and it is a requirement of the Nasdaq Stock Market that all issuers of securities traded on that market hold an annual meeting once a year. LMI's annual meeting will satisfy this requirement. If the merger proposal is approved and the mergers close, Liberty Global, as the successor to LMI, will not be required to hold an annual meeting until 2006.

**Q: In addition to the merger proposal, what other proposals are to be considered and voted upon at the LMI annual meeting?**

A: LMI stockholders are being asked to consider and vote on the following three proposals, which we refer to collectively as the annual business matter proposals, in addition to the merger proposal:  
the LMI election of directors proposal, a proposal to elect David E. Rapley and Larry E. Romrell to serve as Class I members of LMI's board of directors until the 2008 annual meeting of LMI stockholders or until their successors are elected;

the LMI incentive plan proposal, a proposal to approve the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005); and

the LMI auditors ratification proposal, a proposal to approve the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005.

We are not aware of any other matters to be acted upon at the annual meeting.

**Q: What stockholder approval is required to approve the LMI election of directors proposal?**

A: A plurality of the affirmative votes of the shares of LMI common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Rapley and Romrell as Class I members of LMI's board of directors.

**Q: How will the vote on the merger proposal impact the LMI directors elected pursuant to the LMI election of directors proposal?**

A: If the merger proposal receives the requisite stockholder approvals at the respective stockholders meetings of LMI and UGC, the LMI directors elected pursuant to the LMI election of directors proposal will serve until the closing of the mergers. At that time, the LMI board of directors, including the members elected as Class I directors at the annual meeting, will be succeeded by a board of directors that we expect will be comprised of officers of Liberty Global because LMI will become a subsidiary of Liberty Global in the mergers.

If the merger proposal does not receive the requisite stockholder approvals, or if for any other reason the merger agreement is terminated, then the persons elected as Class I directors at the LMI annual meeting will serve until the 2008 annual meeting of LMI stockholders or until their successors are elected.

**Q: What stockholder approval is required to approve the LMI incentive plan proposal?**

A: Approval of the LMI incentive plan proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI common stock outstanding on the record date for the LMI annual meeting that are present at the annual meeting, in person or by proxy, voting together as a single class.

**Q: Why are LMI stockholders being asked to vote on the LMI incentive plan proposal?**

A: The Liberty Media International, Inc. 2004 Incentive Plan was originally adopted by the LMI board of directors on May 11, 2004, and approved by LMI's sole stockholder at that time, Liberty Media Corporation. On March 9, 2005, the compensation committee of the LMI board of directors determined to amend the incentive plan in anticipation of Liberty Global assuming the incentive plan following the completion of the mergers. Prior to the amendment, the maximum number of shares of any series of Liberty Global common stock with respect to which awards could have been granted under the incentive plan following the mergers was 20 million. LMI's compensation committee determined to amend and restate the incentive plan to provide, among other things, that, if the mergers are completed, the maximum number of shares of any series of Liberty Global common stock with respect to which awards may be issued by Liberty Global under the incentive plan will be 25 million. The increase

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was deemed advisable because following the mergers equity incentive awards granted to the employees of UGC and its subsidiaries will be granted under the Liberty Global plan, instead of the various UGC stock incentive plans which will no longer be available for future awards, and because Liberty Global will have a significantly larger number of shares of common stock outstanding following the mergers than LMI has currently. In order for certain awards under the incentive plan to be eligible for favorable tax treatment under Section 162(m) of the Internal Revenue Code, the incentive plan, as amended and restated, must be approved by the public stockholders of LMI.

**Q: How will the vote on the merger proposal impact the LMI incentive plan proposal?**

A: If the merger proposal receives the requisite stockholder approvals at the respective stockholders meetings of LMI and UGC and the mergers are completed, the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) will be assumed by Liberty Global, and Liberty Global will succeed LMI as the issuer under the incentive plan. In addition, the incentive plan will automatically be renamed the Liberty Global, Inc. 2005 Incentive Plan, and the number of shares with respect to which awards may be issued will increase from 20 million to 25 million, as described above.

**Q: What stockholder approval is required to approve the LMI auditors ratification proposal?**

A: The LMI auditors ratification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI common stock outstanding on the record date for the LMI annual meeting that are present at the annual meeting, in person or by proxy, voting together as a single class.

**Q: What do LMI stockholders need to do to vote on the annual business matter proposals?**

A: After carefully reading and considering the information relating to the annual business matter proposals contained in this joint proxy statement/ prospectus, LMI stockholders should complete, sign and date their proxy cards and mail them in the enclosed return envelope, or vote by the telephone or through the Internet, in each case as soon as possible so that their shares are represented and voted at the annual meeting. Stockholders who have shares registered in the name of a broker, bank or other nominee should follow the voting instruction card provided by their broker, bank or other nominee in instructing their broker, bank or other nominee how to vote their shares on each of the annual business matter proposals.

**Q: If LMI shares are held in street name by a broker, bank or other nominee, will the broker, bank or other nominee vote those shares for the beneficial owner on each of the annual business matter proposals?**

A: If LMI stockholders hold shares in street name and do not provide voting instructions to their broker, bank or other nominee, their shares will not be voted on the incentive plan proposal but may, in the discretion of the broker, bank or other nominee, be voted on the election of directors proposal and the auditors ratification proposal. Accordingly, their broker, bank or other nominee will vote their shares held in street name for or against the incentive plan proposal only if they provide instructions on how to vote.

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**SUMMARY**

*The following summary includes information contained elsewhere in this joint proxy statement/prospectus. This summary does not purport to contain a complete statement of all material information relating to the merger agreement, the mergers and the other matters discussed herein and is subject to, and is qualified in its entirety by reference to, the more detailed information and financial statements contained or incorporated in this joint proxy statement/prospectus, including the appendices included herein. You may obtain the information about UGC that we incorporate by reference into this joint proxy statement/prospectus without charge by following the instructions in the section entitled *Additional Information Where You Can Find More Information*. You should carefully read this joint proxy statement/prospectus in its entirety, as well as the merger agreement included with this proxy statement/prospectus as Appendix B and the other Appendices included herein.*

**The Companies**

**(see page 70)**

*Liberty Media International, Inc.*

*12300 Liberty Boulevard*

*Englewood, Colorado 80112*

*Telephone: (720) 875-5800*

LMI, through its subsidiaries and affiliates, provides broadband distribution services and video programming services to subscribers in Europe, Japan, Latin America and Australia. LMI's broadband distribution services consist primarily of cable television distribution, Internet access, telephony, and, in selected markets, direct-to-home satellite distribution. LMI's broadband distribution services include those of UGC, which is a controlled subsidiary of LMI. LMI's programming networks create original programming and also distribute programming obtained from international and home-country content providers. LMI's principal assets include interests in UGC, LMI/Sumisho Super Media, LLC, Jupiter Programming Co., Ltd. (JPC), Liberty Cablevision of Puerto Rico Ltd. and Pramer S.C.A. LMI's corporate website is located at [www.libertymediainternational.com](http://www.libertymediainternational.com).

*UnitedGlobalCom, Inc.*

*4643 South Ulster Street*

*Suite 1300*

*Denver, Colorado 80237*

*Telephone: (303) 770-4001*

UGC is an international broadband communications provider of video, voice and broadband Internet access services with operations in 16 countries outside the United States. As of December 31, 2004, UGC's networks passed approximately 15.9 million homes and serve approximately 8.7 million video subscribers, 0.8 million voice subscribers and 1.4 million broadband Internet access subscribers. UGC Europe, Inc., UGC's largest consolidated operation, is a pan-European broadband communications company, providing video, high-speed Internet access and telephone services through its broadband networks in 13 European countries. UGC's primary Latin American operation, VTR GlobalCom S.A., provides video, high-speed Internet access and telephone services primarily to residential customers in Chile. UGC also has consolidated operations in Brazil and Peru; an approximate 19% interest in SBS Broadcasting S.A., a European commercial television and radio broadcasting company; an approximate 34% interest in Austar United Communications Ltd., a pay-TV provider in Australia; and an indirect investment in Telenet Group Holding N.V., a broadband communications provider in Belgium. UGC's corporate website is located at [www.unitedglobal.com](http://www.unitedglobal.com).

*Liberty Global, Inc.*

*12300 Liberty Boulevard*

*Englewood, Colorado 80112*

*Telephone: (720) 875-5800*

Liberty Global is a newly-formed corporation and currently a wholly owned subsidiary of LMI. Liberty Global has not conducted any activities other than those incident to its formation, the matters contemplated by the merger agreement and the preparation of applicable filings under the federal securities laws. Upon consummation of the mergers, LMI and UGC will become wholly owned subsidiaries of Liberty Global, and Liberty Global will become a



publicly traded company. Following the mergers, Liberty Global's corporate website will be located at [www.lgi.com](http://www.lgi.com).

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*Cheetah Acquisition Corp.*  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (720) 875-5800

Cheetah Acquisition Corp, which we refer to as **LMI Merger Sub**, is a wholly owned transitory merger subsidiary of Liberty Global, recently formed solely for the purpose of merging with and into LMI.

*Tiger Global Acquisition Corp.*  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (720) 875-5800

Tiger Global Acquisition Corp., which we refer to as **UGC Merger Sub**, is a wholly owned transitory merger subsidiary of Liberty Global, recently formed solely for the purpose of merging with and into UGC.

**Structure of the Mergers**

(see page 85)

To accomplish the combination of the businesses of LMI and UGC under a new parent company, Liberty Global was formed with two wholly owned subsidiaries, LMI Merger Sub and UGC Merger Sub. At the effective time of the mergers:

LMI Merger Sub will merge with and into LMI, and LMI will be the surviving corporation in that merger (which we refer to as the **LMI merger**); and

UGC Merger Sub will merge with and into UGC, and UGC will be the surviving corporation in that merger (which we refer to as the **UGC merger**).

As a result of the mergers described above and the conversion and exchange of securities described in this joint proxy statement/prospectus, LMI will become a direct, wholly owned subsidiary of Liberty Global, and UGC will become an indirect, wholly owned subsidiary of Liberty Global. Following the mergers, Liberty Global will own directly 46.5% of the common stock of UGC and indirectly through Liberty Global's wholly owned subsidiary LMI 53.5% of the common stock of UGC (based upon outstanding UGC share information as of March 31, 2005).

**The Stockholders Meetings and Proxy Solicitations**

(see page 72)

***LMI Annual Meeting***

*Where and When.* The LMI annual meeting will take place at [ ], [ ], [ ], [ ] [ ], on [ ], 2005, at [ ] a.m., local time.

*Who May Vote.* You may vote at the LMI annual meeting if you were the record holder of LMI Series A common stock or LMI Series B common stock as of 5:00 p.m., New York City time, on May 3, 2005, the record date for the LMI annual meeting. As of March 31, 2005, an aggregate of 165,555,331 shares of LMI Series A common stock and 7,264,300 shares of LMI Series B common stock were outstanding and would have been entitled to vote at the LMI annual meeting if March 31, 2005 had been the record date for the LMI annual meeting. The holders of LMI Series A common stock and the holders of LMI Series B common stock will vote together as a single class. You may cast one vote for each share of LMI Series A common stock that you owned on the record date for the LMI annual meeting and ten votes for each share of LMI Series B common stock that you owned on the record date for the LMI annual meeting.

***UGC Special Meeting***

*Where and When.* The UGC special meeting will take place at [ ], [ ], [ ], [ ] [ ], on [ ], 2005, at [ ] a.m., local time.

*Who May Vote.* You may vote at the UGC special meeting if you were the record holder of UGC Class A common stock, UGC Class B common stock or UGC Class C common stock as of 5:00 p.m., New York City time, on May 3, 2005, the record date for the UGC special meeting. As of March 31, 2005, an aggregate of 401,894,352 shares of UGC Class A common stock, 10,493,461 shares of UGC Class B common stock and 379,603,223 shares of UGC Class C common stock were outstanding and would have been entitled to vote at the UGC special meeting if

March 31, 2005

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had been the record date for the UGC special meeting. The holders of UGC Class A common stock, the holders of UGC Class B common stock and the holders of UGC Class C common stock will vote together as a single class. You may cast one vote for each share of UGC Class A common stock that you owned on the record date for the UGC special meeting and ten votes for each share of UGC Class B common stock or UGC Class C common stock that you owned on the record date for the UGC special meeting.

**Fairness Determinations and Recommendations of the Special Committee and the UGC Board**

Throughout this joint proxy statement/ prospectus, when we refer to **unaffiliated stockholders of UGC**, we mean holders of UGC Class A common stock other than LMI and its affiliates.

***Fairness Determination and Recommendation of the Special Committee (see page 22)***

A special committee of the board of directors of UGC, which we refer to as the Special Committee, consisting of three UGC directors (who are independent under the rules of the Nasdaq Stock Market and have no relationship with LMI or any of its affiliates that the Special Committee viewed as undermining its independence) evaluated the fairness of the UGC merger and negotiated the terms of the mergers.

The Special Committee determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC. The Special Committee also determined to approve, and to recommend that the UGC board of directors approve, the merger agreement and the UGC merger. In making these determinations, the Special Committee considered various factors, including:

the opinion of Morgan Stanley & Co. Incorporated, financial advisor to the Special Committee, directed to the Special Committee that, as of the date of the opinion and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders;

that the UGC merger would be conditioned on the approval of the holders of a majority of UGC's publicly held shares (excluding shares held by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC);

the premium presented to the unaffiliated stockholders of UGC by the merger consideration in relation to various benchmarks, including the relative trading prices of UGC common stock and LMI common stock prior to the commencement of merger discussions;

that the cash election provided the unaffiliated stockholders of UGC with some protection in the event the price of LMI's stock declines prior to closing;

the opportunity presented to the unaffiliated stockholders of UGC by the stock election to participate in the benefits expected to be realized by the combined companies in the future;

that the implied valuation in the mergers of the Japanese distribution and content assets of LMI is attractive as a financial matter, and such assets offer opportunities in diverse markets;

that Michael T. Fries, the current Chief Executive Officer of UGC, would be the Chief Executive Officer of the combined company;

that Liberty Global would have no single stockholder or group of stockholders exercising voting control over the combined company;

that the opportunity for growth is greater as a part of the combined company;

that UGC stockholders would own interests in a company with a more diverse portfolio of investments, which would be better able to weather economic change, including fluctuations in foreign exchange rates;

the absence of the ability to sell UGC to a third party as a result of LMI's controlling equity position in UGC;

that the receipt of Liberty Global stock by the unaffiliated stockholders of UGC in the mergers will generally not be taxable to such stockholders, while the receipt of cash consideration generally will be taxable to such stockholders; and

the other factors referred to under Special Factors Fairness Determinations and Recommendations of the Special Committee and the UGC Board.

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stock will vote together as a single class. You may cast one vote for each share of UGC Class A common stock that you owned on the record date for the UGC special meeting and ten votes for each share of UGC Class B common stock or UGC Class C common stock that you owned on the record date for the UGC special meeting.

**Fairness Determinations and Recommendations of the Special Committee and the UGC Board**

Throughout this joint proxy statement/ prospectus, when we refer to **unaffiliated stockholders of UGC**, we mean holders of UGC Class A common stock other than LMI and its affiliates.

***Fairness Determination and Recommendation of the Special Committee (see page 22)***

A special committee of the board of directors of UGC, which we refer to as the Special Committee, consisting of three UGC directors (who are independent under the rules of the Nasdaq Stock Market and have no relationship with LMI or any of its affiliates that the Special Committee viewed as undermining its independence) evaluated the fairness of the UGC merger and negotiated the terms of the mergers.

The Special Committee determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC. The Special Committee also determined to approve, and to recommend that the UGC board of directors approve, the merger agreement and the UGC merger. In making these determinations, the Special Committee considered various factors, including:

the opinion of Morgan Stanley & Co. Incorporated, financial advisor to the Special Committee, directed to the Special Committee that, as of the date of the opinion and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders;

that the UGC merger would be conditioned on the approval of the holders of a majority of UGC's publicly traded shares (i.e., other than shares owned by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC);

the premium presented to the unaffiliated stockholders of UGC by the merger consideration in relation to various benchmarks, including the relative trading prices of UGC common stock and LMI common stock prior to the commencement of merger discussions;

that the cash election provided the unaffiliated stockholders of UGC with some protection in the event the price of LMI's stock declines prior to closing;

the opportunity presented to the unaffiliated stockholders of UGC by the stock election to participate in the benefits expected to be realized by the combined companies in the future;

that the implied valuation in the mergers of the Japanese distribution and content assets of LMI is attractive as a financial matter, and such assets offer opportunities in diverse markets;

that Michael T. Fries, the current Chief Executive Officer of UGC, would be the Chief Executive Officer of the combined company;

that Liberty Global would have no single stockholder or group of stockholders exercising voting control over the combined company;

that the opportunity for growth is greater as a part of the combined company;

that UGC stockholders would own interests in a company with a more diverse portfolio of investments, which would be better able to weather economic change, including fluctuations in foreign exchange rates;

the absence of the ability to sell UGC to a third party as a result of LMI's controlling equity position in UGC;

that the receipt of Liberty Global stock by the unaffiliated stockholders of UGC in the mergers will generally not be taxable to such stockholders, while the receipt of cash consideration generally will be taxable to such stockholders; and

the other factors referred to under Special Factors Fairness Determinations and Recommendations of the Special Committee and the UGC Board.

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***Fairness Determination and Recommendation of the UGC Board (see page 27)***

Based upon the recommendation of the Special Committee and adopting the analysis of the Special Committee, the UGC board of directors unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC. The UGC board also unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is fair to, and in the best interests of, UGC and its stockholders. Accordingly, the UGC board of directors recommends that UGC stockholders vote **FOR** the merger proposal at the UGC special meeting.

**Opinion of the Financial Advisor to the Special Committee**

**(see page 28)**

Morgan Stanley, financial advisor to the Special Committee, delivered a written opinion to the Special Committee to the effect that, as of January 17, 2005 and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders. The full text of Morgan Stanley's opinion, dated January 17, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Morgan Stanley in rendering its opinion, is included as Appendix D to this joint proxy statement/prospectus. UGC stockholders should read this opinion carefully and in its entirety. The opinion does not constitute a recommendation to any UGC stockholder as to how to vote with respect to the UGC merger or as to what form of consideration to elect.

**Fairness Determinations of the Boards of Directors of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub**

**(see page 35)**

The UGC merger is considered a 13E-3 transaction because each of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub is an affiliate of UGC, and the unaffiliated stockholders of UGC are entitled to receive consideration in the UGC merger other than Liberty Global common stock. As a result, under the federal securities laws, LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub are each required to consider the substantive and procedural fairness of the UGC merger to the unaffiliated stockholders of UGC.

***Fairness Determination of the LMI Board (see page 35)***

The LMI board of directors determined that the transactions contemplated by the merger agreement, including the UGC merger, are, substantively and procedurally, fair to the unaffiliated stockholders of UGC. In making this determination, the LMI board considered various factors, including:

that the merger was negotiated with the Special Committee, which was advised by its own counsel and financial advisors;

that the UGC merger is structured so that it is a condition to its completion that it be approved by at least a majority of the outstanding shares of UGC common stock not beneficially owned by LMI or Liberty or the directors and executive officers of LMI, Liberty and UGC;

that the 0.2155 to 1.0 exchange ratio represents an 8.6% premium over the closing sale price for the shares of UGC Class A common stock on December 14, 2004, the last trading day before Mr. Malone's first conversation with the Special Committee, and a slight premium over the closing sale price of those shares on January 11, 2005, the last trading day before LMI management and the Special Committee reached an agreement in principle on the financial terms of the UGC merger;

its belief that since LMI's spin off from Liberty in June 2004, UGC's historical trading price has included an acquisition premium attributable to market speculation that LMI would buy out the public minority stockholders of UGC;



its belief that LMI's common stock trades with a holding company discount of between 9% and 19%, implying a larger premium to the unaffiliated UGC stockholders on a fair value-to-fair value basis;

that the unaffiliated stockholders of UGC who elect to receive Liberty Global stock will have the opportunity to participate in LMI's Japanese cable distribution and programming businesses, as well as continue to participate in the potential growth of the businesses of UGC;

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that LMI was foregoing its ability to obtain a control premium for its investment in UGC, while the unaffiliated stockholders of UGC who become stockholders of Liberty Global would participate as stockholders of the new company in any control premium because there will be no single controlling stockholder of the new company; and

the other factors referred to under Special Factors Fairness Determinations of the Boards of Directors of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub.

***Fairness Determinations of the Boards of Liberty Global, LMI Merger Sub and UGC Merger Sub***

***(see page 37)***

Adopting the analysis of the board of directors of LMI, the boards of directors of each of Liberty Global, LMI Merger Sub and UGC Merger Sub unanimously determined that the transactions contemplated by the merger agreement, including the UGC merger, are, substantively and procedurally, fair to the unaffiliated stockholders of UGC. Each of these boards of directors is comprised of two persons serving on the board of directors of LMI, each of whom was present for and participated in the adopted analysis of the LMI board.

**Recommendation of and Reasons for the LMI Merger**

***(see page 37)***

LMI's board of directors unanimously approved the merger agreement and determined that the merger agreement and the transactions contemplated thereby, including the LMI merger, are advisable, fair to, and in the best interests of, LMI and its stockholders. Accordingly, LMI's board of directors recommends that LMI stockholders vote **FOR** the merger proposal at the LMI annual meeting.

LMI's board of directors considered various factors in approving the merger agreement and the LMI merger, including: that the mergers would eliminate the current dual public holding company structure in which LMI's principal consolidated asset is its interest in another public company, UGC;

that the elimination of the holding company structure would eliminate or significantly reduce the holding company discount in LMI's stock price;

the opinion of Banc of America Securities LLC, financial advisor to LMI, directed to the LMI board that, as of the date of the opinion, and based upon and subject to the factors, limitations and assumptions set forth in the opinion, the consideration to be received by LMI stockholders (other than affiliates of LMI) in the transactions contemplated by the merger agreement was fair from a financial point of view to such stockholders;

that the strengths of the respective management teams of LMI and UGC would complement each other, and that there was little if any overlap at the operating level that would impede a smooth integration of the two companies;

that the consummation of the mergers would eliminate any potential competition between LMI and UGC, including in the pursuit of acquisition opportunities and capital raising activities;

that the receipt of the merger consideration in the LMI merger would be tax-free to the LMI stockholders;

that the merger agreement included a limitation on the cash election and that LMI had sufficient cash to fund the maximum amount of cash anticipated to be payable if the cash elections were fully exercised; and

the other factors referred to under Special Factors Recommendation of and Reasons for the LMI Merger.

**Opinion of LMI's Financial Advisor**

***(see page 38)***

Banc of America Securities, LMI's financial advisor, delivered a written opinion to the LMI board of directors to the effect that, as of January 17, 2005 and based upon and subject to the factors, limitations and assumptions set forth in the opinion, the consideration to be received by the stockholders of LMI (other than affiliates of LMI) in the

transactions contemplated by the merger agreement was fair from a financial point of view to such stockholders. The full text of Banc of America Securities' opinion, dated January 17, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of review undertaken by Banc of America Securities in rendering its opinion, is included as Appendix E to this joint proxy statement/ prospectus. LMI stockholders should read this opinion carefully and in its entirety. The opinion does not

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constitute a recommendation to any LMI stockholder as to how any LMI stockholder should vote with respect to the LMI merger.

**Management of Liberty Global**

(see page 96)

Following the mergers, the board of directors of Liberty Global will consist of ten members, of whom five are current members of LMI's board of directors and five are current members of UGC's board of directors. The members of the Liberty Global board of directors will be:

John C. Malone, currently Chairman of the Board, Chief Executive Officer, President and a director of LMI and a director of UGC;

Michael T. Fries, currently President, Chief Executive Officer and a director of UGC;

John P. Cole, Jr., currently a director of UGC and a member of the Special Committee;

John W. Dick, currently a director of UGC and a member of the Special Committee;

Paul A. Gould, currently a director of UGC and a member of the Special Committee;

David E. Rapley, currently a director of LMI;

Larry E. Romrell, currently a director of LMI;

Gene W. Schneider, currently the Chairman of the Board of Directors of UGC;

J.C. Sparkman, currently a director of LMI; and

J. David Wargo, currently a director of LMI.

The management of Liberty Global will be comprised of certain executive officers from each of LMI and UGC, including Mr. Malone who has agreed to serve as the Chairman of the Board of Liberty Global and Mr. Fries who has agreed to serve as the Chief Executive Officer and President of Liberty Global. For more information on the proposed directors and executive officers of Liberty Global, see Management of Liberty Global, Management of LMI and Executive Officers, Directors and Principal Stockholders of UGC.

**Interests of Certain Persons in the Mergers**

(see page 46)

In considering the recommendations of LMI's and UGC's boards of directors to vote to approve the merger proposal, stockholders of LMI and UGC should be aware that members of LMI's and UGC's boards of directors and members of LMI's and UGC's executive management teams have relationships, agreements or arrangements that provide them with interests in the mergers that may be in addition to or different from those of LMI's or UGC's public stockholders. Both LMI's and UGC's boards of directors were aware of these interests and considered them when approving the merger agreement and the mergers.

**Material United States Federal Income Tax Consequences of the Mergers**

(see page 79)

Completion of the mergers is conditioned upon the receipt by LMI of the opinion of Baker Botts L.L.P., or another nationally recognized law firm, to the effect that the LMI merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and upon the receipt by UGC of the opinion of a nationally recognized law firm, to the effect that, when integrated with the LMI merger, the conversion of shares of UGC common stock into shares of Liberty Global Series A common stock that is effected pursuant to the UGC merger will qualify as an exchange within the meaning of Section 351 of the Internal Revenue Code. The opinions will be based upon factual representations and covenants, including those contained in letters provided by LMI, UGC, Liberty

Global and/or others, and certain assumptions set forth in the opinions. No rulings have been or will be requested from the Internal Revenue Service with respect to any tax matters relating to the mergers.

Assuming the mergers are treated as described above, the mergers generally will not result in the recognition of gain or loss by LMI, UGC, Liberty Global, the LMI stockholders or, except to the extent that they receive cash, the UGC stockholders. The taxation of the receipt of cash by a holder of UGC common stock is very complicated and subject to uncertainties. Due to the uncertainties concerning the taxation of the receipt of cash, Liberty Global or the exchange agent, as applicable, expect to withhold 30% (unless reduced by an applicable treaty) of all cash payments made to

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UGC stockholders that are non-U.S. holders as a result of making a valid cash election. **UGC stockholders should consult their tax advisors if they are considering making a cash election with respect to their UGC common stock.**

LMI stockholders and UGC stockholders should be aware that the tax consequences to them of the applicable merger may depend upon their own situations. In addition, LMI stockholders and UGC stockholders may be subject to state, local or foreign tax laws that are not discussed in this joint proxy statement/ prospectus. **LMI stockholders and UGC stockholders should therefore consult with their own tax advisors for a full understanding of the tax consequences to them of the mergers.**

**Merger Agreement**

**(see page 85 and Appendix B)**

The merger agreement is included as Appendix B to this joint proxy statement/ prospectus. We encourage you to read the merger agreement because it is the legal document that governs the mergers.

***Conditions to Completion of the Mergers***

LMI's and UGC's respective obligations to complete the mergers are subject to the satisfaction or waiver of a number of conditions, including, among others:

the statutory approval and the minority approval, each having been obtained at the UGC special meeting;

the approval of the merger proposal by the LMI stockholders at the LMI annual meeting;

approval for listing on the Nasdaq National Market of the Liberty Global common stock to be issued in connection with the mergers;

LMI and Liberty Global having received an opinion that the mergers should not cause the spin off of LMI by Liberty, which occurred on June 7, 2004, to fail to qualify as a tax-free distribution to Liberty under Section 355(e) of the Internal Revenue Code of 1986, as amended (the Code); and

LMI and UGC each having received an opinion from its respective tax counsel as to the treatment of the mergers for U.S. federal income tax purposes.

We expect to complete the mergers as promptly as practicable after all of the conditions to the mergers have been satisfied or, if applicable, waived. Neither the condition relating to the minority approval at the UGC special meeting nor the conditions relating to the receipt of the tax opinions may be waived.

***Termination of the Merger Agreement***

We may jointly agree to terminate the merger agreement at any time without completing the mergers, even after receiving the requisite stockholder approvals of the merger proposal. In addition, either UGC (with the approval of the Special Committee) or LMI may terminate the merger agreement if, among other things:

the mergers have not been consummated before September 30, 2005;

any order, decree or ruling that permanently restrains, enjoins or prohibits the mergers becomes final and non-appealable; or

any of the stockholder approvals required to approve the merger proposal have not been obtained.

In addition, LMI may terminate the merger agreement if the board of directors of UGC (with the approval of the Special Committee) has withdrawn or modified, in any manner adverse to LMI, its recommendation to the UGC stockholders.

No termination fee will be payable by any party to the merger agreement if the merger agreement is terminated.

**Appraisal or Dissenters' Rights**

**(see page 47)**

Under Delaware law, holders of shares of UGC Class A common stock will not be entitled to appraisal rights in connection with the UGC merger.

Under Delaware law, LMI stockholders are not entitled to appraisal rights in connection with the LMI merger.

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### **Regulatory Matters**

(see page 47)

At the date of this joint proxy statement/ prospectus, each of LMI and UGC has obtained all regulatory approvals required for the completion of the mergers.

### **Voting Agreement**

(see page 95 and Appendix C)

On January 17, 2005, at the insistence of the Special Committee and at the request of the LMI board of directors, John C. Malone, the Chairman of the Board, Chief Executive Officer and President of LMI, entered into a voting agreement with UGC, pursuant to which Mr. Malone has agreed to vote the shares of LMI Series A common stock and LMI Series B common stock owned by him or which he has the right to vote (representing, as of March 31, 2005, approximately 26.5% of the aggregate voting power of LMI) in favor of the approval of the merger proposal. A copy of the voting agreement is included as Appendix C to this joint proxy statement/ prospectus.

### **Risk Factors**

(see page 59)

The mergers entail several risks, including:

risks relating to the value of the merger consideration received compared with the value of the securities exchanged therefor;

risks relating to the value of the merger consideration received by UGC stockholders compared to the value of the merger consideration at the time elected by UGC stockholders;

risks associated with the ability of the parties to realize the anticipated benefits of the mergers;

risks associated with class action lawsuits relating to the UGC merger; and

risks associated with transaction costs.

In addition, the parties to the mergers face risks and uncertainties relating to:

overseas operations and regulations;

technology and competition;

certain financial matters; and

governance matters.

**Please carefully read the information included under the heading Risk Factors.**

### **Recommendations regarding the LMI Annual Business Matter Proposals**

(see page 157)

LMI's board of directors has approved each of the annual business matter proposals and recommends that the LMI stockholders vote **FOR** the election of Messrs. Rapley and Romrell as Class I directors pursuant to the LMI election of directors proposal, **FOR** the LMI incentive plan proposal and **FOR** the LMI auditors ratification proposal. Prior to the LMI board approving the LMI auditors ratification proposal, KPMG LLP was selected by the audit committee of the LMI board to serve as the independent auditors of LMI for the year ending December 31, 2005.

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**Table of Contents****Selected Summary Historical Financial Data of LMI**

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 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 historical consolidated financial statements of LMI included elsewhere herein.

|                                 | <b>December 31,</b>         |             |             |             |             |
|---------------------------------|-----------------------------|-------------|-------------|-------------|-------------|
|                                 | <b>2004(2)</b>              | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|                                 | <b>as restated (1)</b>      |             |             |             |             |
|                                 | <b>amounts in thousands</b> |             |             |             |             |
| <i>Summary Balance Sheet</i>    |                             |             |             |             |             |
| <i>Data:</i>                    |                             |             |             |             |             |
| 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 | \$ 4,992,746                | 54,126      | 35,286      | 338,466     | 101,415     |
| Stockholders' equity            | \$ 5,240,506                | 3,418,568   | 2,708,893   | 2,039,593   | 1,907,085   |

|   | <b>Year ended December 31,</b>                        |             |             |             |             |
|---|---|-------------|-------------|-------------|-------------|
|   | <b>2004(2)</b>  | <b>2003</b> | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|   | <b>as restated (1)</b>                                |             |             |             |             |
|   | <b>amounts in thousands, except per share amounts</b> |             |             |             |             |
| <i>Summary Statement of Operations Data:</i>  |   |             |             |             |             |
| 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(3)   | \$ 38,710   | 13,739      | (331,225)   | (589,525)   | (168,404)   |
| Earnings (loss) from continuing operations(4)   | \$ (18,058)   | 20,889      | (329,887)   | (820,355)   | (129,694)   |
| Earnings (loss) from continuing operations per common share (pro forma for spin off)(5) | \$ (.11)  | .14         | N/A         | N/A         | N/A         |



- (1) See note 23 to the historical consolidated financial statements of LMI, included elsewhere herein.
- (2) Prior to January 1, 2004, the substantial majority of LMI operations were conducted through equity method affiliates, including UGC, J-COM and JPC. As more fully discussed in the notes to LMI's historical financial statements included elsewhere herein, in January 2004, LMI completed a transaction that increased LMI's ownership in UGC and enabled LMI to fully exercise its voting rights with respect to its historical investment in UGC. As a result, UGC has been accounted for as a consolidated subsidiary and included in LMI's consolidated financial position and results of operations since January 1, 2004. See Liberty Global's unaudited condensed pro forma combined financial statements included elsewhere herein for the pro forma effects of consolidating UGC on Liberty Global's results of operations. See also Appendix A: Information Concerning Liberty Media International, Inc. Part 4: Historical Financial Information of LMI and its Significant Affiliates and Acquirees to this joint proxy statement/ prospectus.
- (3) Effective January 1, 2002, LMI 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.
- (4) LMI's loss from continuing operations in 2002 and 2001 included LMI's share of UGC's net losses of \$190,216,000 and \$439,843,000, respectively. Because LMI had no commitment to make additional capital contributions to UGC, LMI suspended recording its share of UGC's losses when LMI's carrying value was

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reduced to zero in 2002. In addition, LMI's loss from continuing operations in 2002 included \$247,386,000 of other-than-temporary declines in fair values of investments, and LMI's loss from continuing operations in 2001 included \$534,962,000 of realized and unrealized losses on derivative instruments.

- (5) 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 LMI, have been increased to give effect to the benefit derived by LMI's stockholders as a result of the distribution of such subscription rights. For additional information, see note 3 to the LMI consolidated financial statements included elsewhere herein.

**Selected Summary Historical Financial Data of UGC**

The following summary financial data of UGC was derived from the audited financial statements of UGC for the five years ended December 31, 2004. This information is only a summary, and is not necessarily comparable from period to period as a result of certain impairments, restructuring charges, gains on extinguishments of debt, acquisitions and dispositions, merger transactions, gains on issuance of common equity securities by subsidiaries and cumulative effects of changes in accounting principles. For this and other reasons, you should read it together with UGC's historical financial statements and related notes and also with UGC's management's discussion and analysis of financial condition and results of operations incorporated by reference herein.

|  | <b>December 31,</b>         |                  |                  |                  |                   |
|--|-----------------------------|------------------|------------------|------------------|-------------------|
|  | <b>2004</b>                 | <b>2003</b>      | <b>2002</b>      | <b>2001</b>      | <b>2000</b>       |
|  | <b>as restated<br/>(1)</b>  |                  |                  |                  |                   |
|  | <b>amounts in thousands</b> |                  |                  |                  |                   |
| <i>Summary Balance Sheet Data:</i>                                   |                             |                  |                  |                  |                   |
| Cash, cash equivalents and short term liquid investments             | \$ 1,077,958                | 312,495          | 456,039          | 999,086          | 2,223,912         |
| Property and equipment, net  | \$ 4,193,095                | 3,342,743        | 3,640,211        | 3,692,485        | 3,880,657         |
| Goodwill and other intangible assets, net                            | \$ 2,615,877                | 2,772,067        | 1,264,109        | 2,843,922        | 5,154,907         |
| <b>Total assets</b>  | <b>\$ 9,134,297</b>         | <b>7,099,671</b> | <b>5,931,594</b> | <b>9,038,640</b> | <b>13,146,952</b> |
| Long-term debt, including current portion, not subject to compromise | \$ 4,852,908                | 3,926,706        | 3,838,906        | 10,033,387       | 9,893,044         |
| Long-term debt, including current portion, subject to compromise     | \$                          | 317,372          | 2,812,988        |                  |                   |
| Stockholders' equity (deficit)                                       | \$ 2,421,984                | 1,472,492        | (4,284,874)      | (4,555,480)      | (85,234)          |

## Year ended December 31,

2004(2)                      2003(2)                      2002(3)                      2001(4)                      2000(5)

as restated  
(1)

amounts in thousands

*Summary Statements of**Operations Data:*

|   |    |           |           |           |             |             |
|---|----|-----------|-----------|-----------|-------------|-------------|
| Revenue   | \$ | 2,525,446 | 1,891,530 | 1,515,021 | 1,561,894   | 1,251,034   |
| Operating loss  | \$ | (240,547) | (656,014) | (899,282) | (2,872,306) | (1,140,803) |
| Income (loss) from continuing operations              | \$ | (356,314) | 1,995,368 | 988,268   | (4,514,765) | (1,220,890) |
| Earnings (loss) per share from continuing operations: |    |           |           |           |             |             |
| Basic earnings (loss) per share                       | \$ | (0.46)    | 7.41      | 2.29      | (41.47)     | (12.00)     |
| Diluted earnings (loss) per share                     | \$ | (0.46)    | 7.41      | 2.29      | (41.47)     | (12.00)     |

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- (1) See note 27 to the consolidated financial statements of UGC, incorporated by reference herein.
- (2) Includes impairments, gains on extinguishment of debt and gains on sales of investments in affiliates and other, net, totaling \$38.9 million, \$35.8 million and \$12.3 million, respectively.
- (3) Includes impairments, gains on extinguishment of debt and gains on sales of investments in affiliates and other, net, totaling \$402.2 million, \$2.2 billion and \$279.4 million, respectively.
- (4) Includes impairments, gains on extinguishment of debt and gains on sales of investments in affiliates and other, net, totaling \$436.2 million, \$2.2 billion and \$117.3 million, respectively. Effective January 1, 2002, UGC adopted Statement 142, which, among other things, provides that goodwill, intangible assets with indefinite lives and excess costs on equity method investments are no longer amortized, but are evaluated for impairment under Statement 142. The cumulative effect of the adoption of Statement 142 was a charge of \$1.3 billion.
- (5) Includes impairments, restructuring charges, gains on sales of investments in affiliates, other-than-temporary losses on investments and amortization of indefinite-lived intangible assets totaling \$1.3 billion, \$204.1 million, \$416.8 million, \$342.4 million and \$447.2 million, respectively.
- (6) Includes amortization of indefinite-lived intangible assets totaling \$287.5 million.

**Ratio (Deficiency) of Earnings to Fixed Charges of UGC**

|  | <b>Year ended December 31,</b>             |                |                |
|--|--|----------------|----------------|
|  | <b>2004</b>                                | <b>2003</b>    | <b>2002</b>    |
|  | <b>as restated(1)</b>                      |                |                |
|  | <b>amounts in thousands, except ratios</b> |                |                |
| Income (loss) before income taxes and other items                              | \$ (472,790)                               | 1,568,066      | 1,328,695      |
| Fixed charges:   |  |                |                |
| Interest within rental expense   | 25,851                                     | 20,970         | 14,540         |
| Interest, whether expensed or capitalized, including amortization of discounts | 301,763                                    | 327,132        | 680,101        |
| <b>Total fixed charges</b>   | <b>327,614</b>                             | <b>348,102</b> | <b>694,641</b> |
| Distributed income of equity investees   | 17,098                                     | 4,714          | 11,276         |
| Adjusted earnings (losses)   | (128,078)                                  | 1,920,882      | 2,034,612      |
| Fixed charges  | 327,614                                    | 348,102        | 694,641        |
| <b>Ratio of earnings to fixed charges</b>                                      |  | <b>5.52</b>    | <b>2.93</b>    |
| Dollar amount of coverage deficiency   | \$ (455,692)                               |                |                |

- (1) See note 27 to the consolidated financial statements of UGC, incorporated by reference herein.

**Selected Unaudited Condensed Pro Forma Combined Financial Data of Liberty Global**

We have included in this joint proxy statement/ prospectus the selected unaudited condensed pro forma combined financial data of Liberty Global set forth below after giving effect to (1) the proposed mergers (the Proposed Mergers) and the resulting step acquisition of the UGC interest not already owned by LMI using the purchase method of accounting (assuming, among other matters, that all UGC stockholders (other than LMI and its wholly owned subsidiaries) will elect to receive shares of Liberty Global in the Proposed Mergers); and (2) the July 1, 2004 acquisition of Suez-Lyonnaise Télécom SA (Noos), the April 1, 2005 acquisition of the remaining 19.9% minority interest in UPC Broadband France SAS (UPC Broadband France), the January 1, 2005 consolidation of LMI/ Sumisho Super Media LLC (Super Media) and Jupiter Telecommunications Co., Ltd. (J-COM), and the April 29, 2005 sale of LMI's equity interests in Torneos y Competeneias S.A. (TyC) and Fox Pan American Sports, LLC (FPAS) (collectively, the Consummated Transactions) based upon the assumptions and adjustments described in the unaudited condensed pro forma combined financial information and notes of Liberty Global contained elsewhere in this document.

The unaudited condensed pro forma combined summary balance sheet data as of December 31, 2004 gives effect to the Proposed Mergers, the consolidation of Super Media and J-COM, the acquisition of the remaining 19.9% minority interest in UPC Broadband France, and the sale of LMI's equity interests in TyC and FPAS, as if they occurred on December 31, 2004. The unaudited condensed pro forma combined summary statement of operations data for the year ended December 31, 2004 is presented as if the Proposed Mergers and the Consummated Transactions were consummated on January 1, 2004.

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The selected unaudited condensed pro forma combined financial information is based upon estimates and assumptions, which are preliminary. The unaudited pro forma information does not purport to be indicative of the financial position and results of operations that Liberty Global will obtain in the future, or that Liberty Global would have obtained if the Proposed Mergers and Consummated Transactions were effective as of the dates indicated above. The selected unaudited condensed pro forma combined information of Liberty Global has been derived from and should be read in conjunction with the historical financial statements and related notes thereto of LMI and UGC. The LMI historical financial statements are included elsewhere herein and the UGC historical financial statements are incorporated by reference into this document.

**Selected Unaudited Condensed Pro Forma Combined  
Financial Data of LMI and Liberty Global**

|   | <b>Pro forma</b>  |  |
|---|---|--|
|   | <b>LMI</b>  | <b>Liberty Global</b>  |
|   | <b>As adjusted for<br/>Consummated<br/>Transactions</b>   | <b>As adjusted for<br/>Consummated<br/>Transactions and<br/>Proposed<br/>Mergers</b> |
|   | <b>amounts in thousands,<br/>except per share amounts</b> |  |
| <i>Summary Statement of Operations Data for year ended December 31, 2004:</i>   |   |  |
| Revenue   | \$ 4,348,873  | 4,348,873  |
| Depreciation and amortization   | \$ (1,415,786)  | (1,415,786)  |
| Operating loss  | \$ (127,203)  | (127,203)  |
| Net earnings (loss)   | \$ 3,756  | (175,677)  |
| Net earnings (loss) per common share:   |   |  |
| Basic and diluted net earnings (loss) per common share                          | \$ 0.02   | (0.70)   |
| Shares used in computing basic and diluted net earnings (loss) per common share | 162,481   | 251,726  |
| <i>Summary Balance Sheet Data as of December 31, 2004:</i>                      |   |  |
| Cash and cash equivalents   | \$ 2,523,960  | 2,512,960  |
| Investment in affiliates  | \$ 1,694,293  | 1,694,293  |
| Property and equipment, net   | \$ 6,744,295  | 6,744,295  |
| Intangible assets not subject to amortization                                   | \$ 4,802,586  | 7,160,105  |
| Total assets  | \$ 17,346,576   | 19,693,095   |
| Debt, excluding current portion   | \$ 7,068,641  | 7,068,641  |
| Stockholders equity   | \$ 5,242,181  | 8,701,010  |

**Comparative Per Share Financial Data**

The following table shows (1) the basic and diluted loss per common share and book value per share data for each of LMI and UGC on a historical basis, (2) the basic and diluted loss per common share and book value per share for Liberty Global on a pro forma basis and (3) the equivalent pro forma net income and book value per share attributable to the shares of Liberty Global common stock issuable at an exchange ratio of 0.2155 per UGC share. Pro forma per share data has been presented assuming UGC stockholders (other than LMI and its wholly owned subsidiaries) receive (1) all stock consideration or (2) 80% stock and 20% cash consideration.

The following information should be read in conjunction with (1) the separate historical financial statements and related notes of LMI included elsewhere herein, (2) the separate historical financial statements and related notes of UGC incorporated by reference herein and (3) the unaudited condensed pro forma combined financial statements of Liberty Global included elsewhere herein. The pro forma information is not necessarily indicative of the results of operations that would have resulted if the Proposed Mergers and the Consummated Transactions had been completed as of the assumed dates or of the results that will be achieved in the future.

We calculate historical book value per share by dividing stockholders' equity by the number of shares of common stock outstanding at December 31, 2004. We calculate pro forma book value per share by dividing pro forma stockholders' equity by the pro forma number of shares of Liberty Global common stock that would have been outstanding had the Proposed Mergers been completed as of December 31, 2004.

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Liberty Global pro forma combined loss applicable to common stockholders, pro forma stockholders' equity and the pro forma number of shares of Liberty Global common stock outstanding have been derived from the unaudited condensed pro forma combined financial information for Liberty Global appearing elsewhere herein.

We calculate the UGC equivalent pro forma per share data by multiplying the pro forma per share amounts by the exchange ratio of 0.2155 shares of Liberty Global common stock for each share of UGC common stock.

Neither LMI nor UGC has paid any cash dividends on its common stock during the periods presented.

|  | Liberty Global |                        |                | UGC                  |                        |        |  |
|--|----------------|------------------------|----------------|----------------------|------------------------|--------|--|
|  | Pro forma      |                        |                | Pro forma equivalent |                        |        |  |
|  | LMI            | 80% stock and 20% cash |                | LMI                  | 80% stock and 20% cash |        |  |
| Historical                                   | All stock      |                        | Historical     | All stock            |                        |        |  |
| as restated(1)                               |                |                        | as restated(2) |                      |                        |        |  |
| Basic and diluted net loss per common share: |                |                        |                |                      |                        |        |  |
| Year ended                                   |                |                        |                |                      |                        |        |  |
| December 31, 2004                            | \$ (0.11)      | (0.70)                 | (0.74)         | (0.46)               | (0.15)                 | (0.16) |  |
| Book value per common share as of:           |                |                        |                |                      |                        |        |  |
| December 31, 2004                            | \$ 30.33       | 34.57                  | 33.95          | 3.07                 | 7.45                   | 7.32   |  |
| Cash dividends                               | \$             |                        |                |                      |                        |        |  |

(1) See note 23 to the consolidated financial statements of LMI, included elsewhere herein.

(2) See note 27 to the consolidated financial statements of UGC, incorporated by reference herein.

**Comparative Per Share Market Price and Dividend Information****Market Price**

The following table sets forth high and low sales prices for a share of LMI Series A common stock, LMI Series B common stock and UGC Class A common stock for the periods indicated.

LMI Series A common stock and LMI Series B common stock trade on The Nasdaq National Market under the symbols LBTYA and LBTYB, respectively. In connection with LMI's June 7, 2004 spin off from Liberty, LMI common stock first began trading on a when-issued basis on June 2, 2004.

UGC Class A common stock trades on The Nasdaq National Market under the symbol UCOMA. There is no trading market for the UGC Class B common stock or UGC Class C common stock.

|  |  | LMI      |          | UGC     |     |
|--|--|----------|----------|---------|-----|
|  |  | Series A | Series B | Class A |     |
|  |  | High     | Low      | High    | Low |



| <b>2003</b>                     |          |          |          |          |          |         |
|---------------------------------|----------|----------|----------|----------|----------|---------|
| First quarter                   |          |          |          |          | \$ 3.22  | \$ 2.20 |
| Second quarter                  |          |          |          |          | \$ 5.63  | \$ 2.81 |
| Third quarter                   |          |          |          |          | \$ 7.70  | \$ 4.92 |
| Fourth quarter                  |          |          |          |          | \$ 9.00  | \$ 5.95 |
| <b>2004</b>                     |          |          |          |          |          |         |
| First quarter                   |          |          |          |          | \$ 10.90 | \$ 7.22 |
| Second quarter(1)               | \$ 38.00 | \$ 33.98 | \$ 41.25 | \$ 38.79 | \$ 8.34  | \$ 6.50 |
| Third quarter                   | \$ 37.00 | \$ 28.60 | \$ 41.25 | \$ 34.05 | \$ 7.51  | \$ 5.80 |
| Fourth quarter                  | \$ 47.27 | \$ 33.25 | \$ 49.31 | \$ 36.19 | \$ 9.79  | \$ 7.18 |
| <b>2005</b>                     |          |          |          |          |          |         |
| First quarter                   | \$ 47.70 | \$ 42.46 | \$ 50.25 | \$ 45.35 | \$ 10.23 | \$ 8.97 |
| Second quarter through April 28 | \$ 44.02 | \$ 40.91 | \$ 46.40 | \$ 43.95 | \$ 9.48  | \$ 8.85 |

(1) As to LMI common stock, from the period beginning on June 8, the date on which regular way trading began in LMI common stock, and ending on June 30.

On January 14, 2005, the last trading day before the public announcement of the mergers, LMI Series A common stock closed at \$43.69 per share, LMI Series B common stock closed at \$46.44 per share and UGC Class A common

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stock closed at \$9.64 per share. Based upon the exchange ratio in the stock election of 0.2155, the pro forma equivalent per share value of the UGC Class A common stock on January 14, 2005, was equal to approximately \$9.42 per share.

On April 28, 2005, LMI Series A common stock closed at \$41.31 per share, LMI Series B common stock closed at \$44.14 per share and UGC Class A common stock closed at \$8.95 per share. Based upon the exchange ratio in the stock election of 0.2155, the pro forma equivalent per share value of the UGC Class A common stock on April 28, 2005, was equal to approximately \$8.90 per share.

It is expected that Liberty Global Series A common stock and Series B common stock will be listed on the Nasdaq National Market under the symbols LBTYA and LBTYB, respectively, the same symbols under which LMI common stock currently trades.

***Dividends***

*LMI.* In July 2004, LMI distributed, as a dividend to its stockholders, 0.20 of a transferable subscription right for each share of LMI common stock owned by them as of 5:00 p.m., New York City time, on July 26, 2004, the record date for the LMI rights offering. Each whole right to purchase LMI Series A common stock entitled the holder to purchase one share of LMI Series A common stock at a subscription price of \$25.00 per share. Each whole right to purchase LMI Series B common stock entitled the holder to purchase one share of LMI Series B common stock at a subscription price of \$27.50 per share. In addition, each whole Series A and Series B right entitled the holder to subscribe, at the same applicable subscription price pursuant to an oversubscription privilege, for additional shares of the applicable series of LMI common stock, subject to proration. LMI has paid no other dividends since it became a publicly traded company.

Pursuant to the merger agreement, LMI may not pay any dividends (other than dividends payable in LMI common stock) until the mergers are completed or the merger agreement is terminated. Except for the foregoing, there are currently no restrictions on the ability of LMI to pay dividends in cash or stock. It is LMI's current dividend policy to not pay cash dividends. All decisions regarding the payment of future dividends by LMI will be made by its board of directors, from time to time, in accordance with applicable law.

*UGC.* In January 2004, UGC distributed, as a dividend to its stockholders, 0.28 of a transferable subscription right for each share of UGC common stock owned by them at the close of business on January 21, 2004, the record date for the UGC rights offering. Each whole right to purchase UGC Class A common stock entitled the holder to purchase one share of UGC Class A common stock at a subscription price of \$6.00 per share. Each whole right to purchase UGC Class B common stock entitled the holder to purchase one share of UGC Class B common stock at a subscription price of \$6.00 per share. Each whole right to purchase UGC Class C common stock entitled the holder to purchase one share of UGC Class C common stock at a subscription price of \$6.00 per share. In addition, each whole Class A, Class B and Class C right entitled the holder to subscribe, at the same subscription price pursuant to an oversubscription privilege, for additional shares of the applicable class of UGC common stock, subject to proration. UGC has paid no other dividends since its predecessor became a publicly traded company on August 2, 1993.

Pursuant to the merger agreement, UGC may not pay any dividends until the mergers are completed or the merger agreement is terminated. Except for the foregoing, there are currently no restrictions on the ability of UGC to pay dividends in cash or stock. It is UGC's current policy to not pay cash dividends. All decisions regarding the payment of future dividends by UGC will be made by its board of directors, from time to time, in accordance with applicable law.

*Liberty Global.* Following the consummation of the mergers, all decisions regarding the payment of dividends by Liberty Global will be made by its board of directors, from time to time, in accordance with applicable law after taking into account various factors, including its financial condition, operating results, current and anticipated cash needs, plans for expansion and possible loan covenants which may restrict or prohibit its payment of dividends.

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**SPECIAL FACTORS**

**Background of the Mergers**

LMI was formerly a wholly owned subsidiary of Liberty. On June 7, 2004, Liberty distributed to its stockholders, on a pro rata basis, all of the issued and outstanding shares of LMI common stock, and LMI became an independent, publicly-traded company. From time to time following the spin off, LMI's board of directors and management reviewed the assets held by LMI to determine the available alternatives for enhancing the value of the company. Among the alternatives discussed following the spin off was a potential combination of LMI with its subsidiary UGC, in which LMI owns capital stock representing 53.6% of the equity and 91% of the outstanding voting power. On November 12, 2004, John C. Malone, Chairman of the Board, Chief Executive Officer and President of LMI, stated in response to questions posed during a conference call with LMI investors that LMI would eventually like to combine with UGC, but not at the then-current market prices, which he believed undervalued LMI. During the period from June 2004 through early December 2004, LMI did not have any contact with UGC regarding a potential combination. At a meeting of the LMI board of directors on December 10, 2004, Mr. Malone sought authorization from the board to contact and initiate discussions with UGC concerning a possible combination of LMI and UGC in a stock-for-stock transaction. Mr. Malone discussed with the board his view that a combination of the two companies should be approached as a merger of equals, with the board of directors and senior management team of the combined company being drawn from members of the boards and senior management teams of both companies. After discussion of the exchange ratio implied by the relative trading prices and sum-of-the parts values of the two companies, the board concluded that any valuation discussions with UGC should be on a market-to-market or fair value-to-fair value basis, with no premium to either company's stockholders. The LMI board authorized Mr. Malone to contact and initiate discussions with UGC on the basis discussed at that meeting.

On the evening of December 10, 2004, as a prelude to discussions with UGC, LMI delivered a letter to UGC stating that it wished to initiate discussions concerning a possible transaction involving the shares of UGC that LMI did not already own, and seeking a mutual confidentiality agreement in anticipation of such talks. This letter did not include any terms of a proposed transaction.

At a telephonic meeting of the UGC board of directors held on December 13, 2004, the board appointed three outside directors, John P. Cole, Jr., John W. Dick and Paul A. Gould, to serve as a Special Committee; to advise the UGC board with respect to the fairness of any transactions proposed by LMI; if deemed appropriate by the Special Committee, to negotiate the terms and conditions of a transaction with representatives of LMI; following such negotiations, to make a recommendation to the UGC board as to whether such proposal should be accepted or rejected by the UGC board; and to retain, at UGC's expense, such attorneys, investment bankers, accountants, actuaries or other advisors as the Special Committee might deem appropriate in order to advise and assist it. Messrs. Cole, Dick and Gould were selected to serve on the Special Committee because they were independent under the rules of the Nasdaq Stock Market and have no relationship with LMI or any of its affiliates that the Special Committee viewed as undermining the independence of the Special Committee, as further described under Fairness Determinations and Recommendations of the Special Committee and the UGC Board.

Subsequently, by unanimous written consent effective as of December 22, 2004, the UGC board approved payment to each member of the Special Committee of a fee of \$95,000 for serving on the Special Committee and provided the Special Committee with certain additional powers in connection with the performance of its duties, including full access to UGC's records and personnel and the authority to execute and deliver any documents or agreements it deemed appropriate in connection with its duties.

After conducting interviews and follow-up conversations with three law firms, on December 14, 2004, the Special Committee retained Debevoise & Plimpton LLP to act as its legal advisor. Among the reasons for this selection were Debevoise's strong reputation, its experience in mergers and acquisitions transactions, its experience in representing other special committees, the seniority and experience of the attorneys who would be working on the transaction and the absence of any material prior relationship with LMI, UGC or any of their affiliates.

On December 15, 2004, the Special Committee, together with representatives of Debevoise, conducted preliminary interviews with representatives of two internationally recognized investment banking firms: Morgan Stanley & Co. Incorporated and another firm. Mr. Gould and Debevoise participated in these meetings in person, and Messrs. Cole

and Dick joined by telephone. Each firm was asked to provide additional information to assist the Special Committee in its decision.

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Also on December 15, 2004, the members of the Special Committee, together with their legal advisors, spoke by telephone with Mr. Malone. Mr. Malone noted that LMI was not making a formal offer and said that he would be interested in discussing with the Special Committee a stock-for-stock transaction based upon relative fair values in which LMI and UGC and their respective boards of directors and management teams would be combined. He indicated that in his view the recent market prices of LMI's and UGC's stocks reflected a fair relative valuation of the two companies. Mr. Malone asked the Special Committee whether they would be interested in discussing a transaction within that framework. In response to questions from the Special Committee, Mr. Malone expressed his views as to the benefits to be derived from a combination of LMI and UGC. The Special Committee also asked Mr. Malone whether LMI would be willing to sell its interest in UGC in a transaction for the entire company. Mr. Malone responded that LMI would not be willing to consider such a transaction and had no current intention of selling its interest in UGC to a third party.

On December 20, 2004, the Special Committee, together with representatives of Debevoise, conducted further interviews with representatives of Morgan Stanley and another investment banking firm. Mr. Gould and Debevoise participated in these meetings in person, and Messrs. Cole and Dick joined by telephone. The Special Committee and its legal advisor raised questions designed to ascertain any prior relationships of each firm with Liberty, LMI and UGC.

On December 21, 2004, the Special Committee had two separate telephone meetings during which the Special Committee extensively discussed the qualifications and fee expectations of the investment banking firms being considered for the position of financial advisor to the Special Committee. At the instruction of the Special Committee, Mr. Gould subsequently requested that each firm reduce its initial fee proposal.

On December 22, 2004, the Special Committee had a further telephonic meeting to discuss the selection of a financial advisor. The Special Committee reviewed the revised fee proposals made by Morgan Stanley and another investment banking firm in response to the committee's request. After discussion, the Special Committee agreed to choose Morgan Stanley provided it was able to meet the Special Committee's fee expectations. Morgan Stanley met those expectations and was retained on December 22, 2004, to act as the Special Committee's financial advisor. Among the reasons for selecting Morgan Stanley were Morgan Stanley's strong reputation, experience in transactions of this kind and knowledge of UGC, its business and the industries in which UGC and LMI operate. The Special Committee also considered the fact that Morgan Stanley's prior representation of UGC in unrelated transactions gave Morgan Stanley additional insight into UGC's business, as well as the fact that Morgan Stanley had an experienced Japanese team that would be helpful in analyzing the value of LMI's investment in J-COM.

On December 23, 2004, the Special Committee held a telephonic meeting with its legal and financial advisors. Participants discussed the Special Committee's December 15, 2004 conversation with Mr. Malone regarding a possible transaction. Participants also discussed the methodologies that Morgan Stanley anticipated using in advising the Special Committee, strategic issues and next steps with respect to Morgan Stanley's commencing its financial analysis, including due diligence plans. The Special Committee raised questions as to the methodologies Morgan Stanley anticipated using in advising the Special Committee, to which Morgan Stanley responded. At the Special Committee's request, Morgan Stanley undertook to keep the Special Committee informed as its work progressed and as to developments with respect to UGC and LMI, including progress in the proposed combination of the Chilean affiliates of UGC and LMI and by providing market perspectives regarding the prospects for the proposed initial public offering of J-COM. At this meeting, Debevoise also reviewed with the members of the Special Committee the Delaware law applicable to the potential transaction and their duties thereunder.

On December 28, 2004, the Special Committee held a telephonic meeting with its legal and financial advisors to discuss the status of Morgan Stanley's financial due diligence. The Special Committee agreed to arrange a call with Mr. Malone on December 31, 2004.

On December 29, 2004, representatives of Debevoise contacted Elizabeth Markowski, the general counsel of LMI, and Ellen Spangler, the general counsel of UGC, regarding legal due diligence matters.

On December 30, 2004, the Special Committee held a telephonic meeting with its legal advisors. The Special Committee discussed legal and strategic issues relating to a potential transaction, including whether the Special Committee should seek to obtain a requirement that a majority of the holders of UGC's publicly held shares (excluding

shares held by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC) approve any transaction, also known as a majority of the minority condition.

On December 31, 2004, the Special Committee held a telephonic meeting with its legal and financial advisors.

Morgan Stanley described the status of its financial due diligence. Morgan Stanley also discussed its preliminary views as to the potential values of LMI and UGC and implied exchange ratios from various perspectives, including public equity analyst reports, a preliminary discounted cash flow analysis, the valuation of companies in similar industries and

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markets as UGC and LMI, a preliminary sum-of-the-parts analysis of LMI taking into account the holding company discount thought to be reflected in the public market trading price of LMI's common stock, historical trading prices of the LMI and UGC common stock and precedent transactions involving purchases of minority interests by controlling stockholders. The Special Committee discussed with Morgan Stanley the approach that Morgan Stanley took in formulating its preliminary views and raised questions to which Morgan Stanley responded regarding Morgan Stanley's analysis and the valuation metrics it employed. The Special Committee and its advisors also discussed certain negotiating considerations.

Later on December 31, 2004, the Special Committee and its legal and financial advisors spoke by telephone with Mr. Malone, Ms. Markowski and two other executives of LMI. On this call Mr. Malone expressed his views as to the prospects of the LMI and UGC businesses, benefits to be obtained by combining LMI and UGC, and why such a combination should be on a market-to-market or fair value-to-fair value basis. Mr. Malone insisted that LMI would not pay a premium for the UGC minority stake, because LMI had already invested heavily in UGC to acquire LMI's control position and the unaffiliated stockholders of UGC would share in all of the benefits of the combined company. He said that any discussion should focus on the parties' respective views as to the relative values of the two companies. He further observed that when he had first approached UGC about discussing a possible combination, the relative market prices of the stocks of the two companies implied an exchange ratio between 0.1923 and 0.1961 shares of LMI Series A common stock for each share of UGC Class A common stock. Since that time, he noted, whether due to speculation regarding LMI's intentions towards its largest investment or currency exchange rate changes, UGC's stock price had moved and had already built in a premium. Following the call with Mr. Malone, the Special Committee reconvened by telephone with its legal and financial advisors to discuss its next steps. The Special Committee then continued the discussion with its legal advisors only.

On January 3, 2005, the Special Committee held a telephonic meeting with its legal and financial advisors. Morgan Stanley discussed potential arguments that could be used when negotiating to maximize the value of the merger consideration to be received by the unaffiliated stockholders of UGC and provided an update as to its preliminary views regarding the potential values of LMI and UGC, including potential combination benefits that might result from the proposed transaction, such as the reduction of the holding company discount thought to be reflected in the public market trading price of LMI's common stock, and approaches to sharing those benefits, the implied exchange ratios and potential premiums with respect to various benchmark dates. The Special Committee discussed Morgan Stanley's views with it and raised questions to which Morgan Stanley responded regarding Morgan Stanley's analysis and the valuation metrics employed. The Special Committee also inquired as to the status of Morgan Stanley's financial due diligence, and requested that Morgan Stanley obtain additional information. The Special Committee and its advisors discussed potential strategic options for the consummation of a potential transaction. Subsequently, the Special Committee continued its discussions in executive session.

On January 4, 2005, the Special Committee held a telephonic meeting with its legal advisors. The Special Committee reviewed the merits of a public versus a private negotiating process and instructed Debevoise to discuss the matter with Ms. Markowski. The Special Committee also met in executive session and had a conference call with Michael T. Fries, the Chief Executive Officer and President of UGC, to review various matters relating to the UGC business and the discussions with LMI. Morgan Stanley spoke separately with Mr. Fries by telephone to discuss similar matters.

On January 5, 2005, representatives of Debevoise called Ms. Markowski to discuss the possibility of pursuing a public process. Ms. Markowski stated that to date LMI had simply asked if the Special Committee would be interested in pursuing discussions on the basis outlined by Mr. Malone in earlier conversations, and that to her knowledge the Special Committee had yet to respond. She also noted that the parties had yet to exchange views on relative values. Ms. Markowski advised Debevoise that in the absence of an agreement in principle on the essential terms of a transaction, she did not believe LMI would be willing to make a formal offer and engage in a public negotiating process.

Later on January 5, 2005, the Special Committee met telephonically with its legal and financial advisors. Morgan Stanley reported on its recent conversation with Mr. Fries. The Special Committee and its advisors discussed potential combination benefits that might result from the proposed transaction, such as the reduction of the holding company discount thought to be reflected in the public market trading price of LMI's common stock and benefits resulting from

the combination of the Chilean affiliates of UGC and LMI, and approaches to sharing those benefits. Debevoise reported on its conversation with Ms. Markowski. The Special Committee agreed to convene in person in New York on January 10, 2005. The Special Committee further agreed to dispatch its financial advisors to meet with Mr. Malone in person on the morning of January 10, 2005 to discuss the details of a possible transaction with LMI and the preliminary valuations of the two companies by Morgan Stanley. The Special Committee and its advisors also discussed certain strategic issues, including the value of obtaining a majority of the minority condition. On the evening of January 5,



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2005, Morgan Stanley spoke by telephone with Mr. Fries at the instruction of the Special Committee to follow up on certain financial due diligence matters.

On January 7, 2005, the Special Committee met telephonically with its legal and financial advisors. Morgan Stanley provided the Special Committee with an overview of the advocacy points that it anticipated making to Mr. Malone in order to maximize the value of the merger consideration to be received by the unaffiliated stockholders of UGC and responded to the Special Committee's questions and comments. Morgan Stanley also provided the Special Committee with an update, based on Morgan Stanley's knowledge of Japan's public securities markets, as to the market prospects for the proposed initial public offering of J-COM. Morgan Stanley informed the Special Committee that it had received from UGC management the projected compound annual growth rates for UGC's broadband operations described below under "Forward-Looking Statements; Certain Projections - Financial Projections Regarding UGC Compound Annual Growth Rates." The Special Committee instructed Morgan Stanley to work with UGC management to understand these projections better in light of Morgan Stanley's prior work as described below under "Opinion of the Financial Advisor to the Special Committee - Discounted Cash Flow Analysis."

On the morning of January 10, 2005, representatives of Morgan Stanley met in person with Mr. Malone and Ms. Markowski. Morgan Stanley presented an advocacy case as to valuations of LMI and UGC and discussed those values and the implied exchange ratios with Mr. Malone. Morgan Stanley also explored with Mr. Malone LMI's willingness to consider a cash alternative or the addition of another component to the stock consideration to provide additional value to the UGC public stockholders.

On the afternoon of January 10, 2005, the Special Committee met in person in New York with its legal advisors to discuss the duties of the members of the Special Committee under Delaware law and legal and strategic issues, including whether the Special Committee should insist upon a majority of the minority condition.

Representatives of Morgan Stanley subsequently joined the meeting and briefed the members of the Special Committee on the results of their conversations earlier in the day with the LMI representatives. Morgan Stanley informed the Special Committee that Mr. Malone had repeated his interest in a stock-for-stock transaction at an exchange ratio reflecting a price at or about market, which at that time implied an exchange ratio of 0.20 LMI shares for each share of UGC. Morgan Stanley reported that Mr. Malone had exhibited some very limited flexibility within that range, including a willingness to consider offering UGC stockholders a cash option for up to 20% of the aggregate value of the merger consideration, the possibility of providing a small amount of additional merger consideration in the form of structured securities and an interest in having the combined company pursue a stock buy-back strategy after the consummation of a transaction. After discussion with Morgan Stanley, and having considered their prior discussions and the preliminary views previously presented to the Special Committee by Morgan Stanley, the Special Committee concluded that Mr. Malone's position was below the range of merger consideration that it could reasonably expect to achieve in the proposed transaction. As a strategic matter, the Special Committee also concluded that it could expect Mr. Malone to improve upon his initial position over the course of negotiations. The Special Committee agreed that Mr. Malone's position provided the basis for further discussion. Later on the evening of January 10, 2005, the Special Committee, Mr. Malone, Ms. Markowski, the respective legal advisors of LMI and the Special Committee, Morgan Stanley and LMI's financial advisor, Banc of America Securities, met to discuss further a possible transaction. Mr. Malone emphasized that he had not made an offer for UGC and that he would not engage in a public negotiating process. He expressed concern that recent increases in the UGC stock price raised doubts as to whether the UGC and LMI stock prices continued to reflect the relative fair values of the two companies, and again stated that LMI was unwilling to pay a premium for the UGC stock at its then-market price. He also repeated the statements made earlier that day to Morgan Stanley. Representatives of the Special Committee noted their strong interest in having a majority of the minority condition as an element of any transaction. Mr. Malone stated that LMI was not interested in pursuing a transaction with such a condition. At the request of the Special Committee, Mr. Malone stated his personal willingness as a significant stockholder of LMI to enter into a voting agreement to support the approval of a potential transaction by the LMI stockholders. Representatives of Morgan Stanley and Banc of America agreed to meet the following morning to discuss the structured securities Mr. Malone had earlier indicated might be included in the merger consideration.

Subsequently, the Special Committee met with its legal and financial advisors to discuss its response to LMI. After discussion with Morgan Stanley, and having considered their prior discussions and the preliminary views previously presented to the Special Committee by Morgan Stanley, the Special Committee concluded that proposing an exchange ratio of 0.23 LMI shares for each share of UGC would be an aggressive and appropriate response to LMI's position in the context of a negotiation.

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On the morning of January 11, 2005, representatives of Morgan Stanley and Banc of America Securities met to discuss the possible inclusion of structured securities as an additional component of the merger consideration. Banc of America and Morgan Stanley discussed Banc of America's preliminary structure of a security that could contain both debt and equity characteristics and explored other potential structures. In addition, Banc of America and Morgan Stanley discussed the valuation methodologies each was employing with respect to LMI and UGC.

On the afternoon of January 11, 2005, Messrs. Dick and Gould met with the Special Committee's legal and financial advisors. Mr. Cole was not present. Morgan Stanley updated the members of the Special Committee on its discussions with Banc of America Securities. After discussion with its advisors, the Special Committee members determined that the structured securities described by Mr. Malone and Banc of America Securities could not be valued properly because the proposal was both highly complex and not fully developed. The Special Committee members further determined that a negotiation over the terms of these securities would significantly distract the parties from the Special Committee's central concern of improving the exchange ratio to maximize economic value for the unaffiliated stockholders of UGC and that these securities were unlikely to provide material economic value to the unaffiliated stockholders of UGC. Morgan Stanley also discussed with the Special Committee members a range of premiums to various assumed UGC stock prices at various exchange ratios. The discussion was based upon both the then-current trading price of LMI's stock and a higher assumed price. Morgan Stanley observed that the latter price may have more fully reflected the underlying value of LMI, since the public market trading price of LMI's common stock likely reflected a holding company discount (widely acknowledged by the research community) of 10% to 20%, which would be impacted by the clarification of J-COM's value as a result of its proposed initial public offering and by the simplification of the relationship between UGC and LMI as a result of the proposed combination of the two companies.

Later that afternoon, Messrs. Dick and Gould met with Mr. Malone, Ms. Markowski, and the respective legal and financial advisors of the Special Committee and LMI. The initial positions of the two sides were as follows: The Special Committee members and their representatives stated (based upon the prior evening's Special Committee discussions) that an exchange ratio of 0.23 LMI shares for each share of UGC would be acceptable. Mr. Malone and his representatives stated that an exchange ratio of 0.20 continued to reflect LMI's sense of an at-market transaction. The Special Committee noted that a majority of the minority condition was of key importance and that it would be interested in obtaining a standstill agreement with Mr. Malone and his affiliates with respect to acquisitions of LMI stock after the consummation of any transaction. Mr. Malone stated that a majority of the minority condition remained unacceptable to LMI and refused to sign a standstill agreement. After extensive further discussion and negotiation, in which the Special Committee members further emphasized the critical importance of a majority of the minority condition, Mr. Malone agreed that LMI would consider a majority of the minority condition if UGC agreed to include in any merger agreement certain termination rights for LMI to avoid a prolonged process. Messrs. Dick and Gould continued negotiations with Mr. Malone without the presence of advisors. At the conclusion of this discussion, each side summarized their last proposals. Mr. Malone had proposed that, subject to the approval of the LMI board, he would consider an exchange ratio of 0.213, reflecting an at-market transaction based upon that day's closing stock prices, with a 20% cash election option at \$9.50 per share of UGC, representing a premium over that day's UGC closing stock price of \$9.26 per share, and the majority of the minority condition if the merger agreement included certain termination rights for LMI. In response, Messrs. Dick and Gould proposed, subject to confirmation by the entire Special Committee, that they would consider an exchange ratio of 0.22 LMI shares for each share of UGC, a 20% cash election option at \$9.75 per share and that the Special Committee would drop its request that Mr. Malone sign a standstill agreement.

On the morning of January 12, 2005, the Special Committee met telephonically with its legal and financial advisors to update Mr. Cole on the prior day's negotiations and to discuss the Special Committee's response to LMI's proposed financial terms for a transaction. At this meeting, Morgan Stanley also discussed with the Special Committee implied values per UGC share and resulting premiums at assumed LMI share prices based upon the 0.213 exchange ratio proposed by Mr. Malone and the 0.22 exchange ratio proposed by Messrs. Dick and Gould and, in each case, based upon an election to receive consideration consisting of either 100% stock or 80% stock and 20% cash.

Also on the morning of January 12, 2005, the board of directors of LMI met to discuss the terms of the potential transaction. Mr. Malone discussed with the LMI board the negotiations with the Special Committee over the prior two days. Noting that the closing prices of the two companies' stocks the prior day implied an exchange ratio of 0.213, Mr. Malone advised the board that he would be willing to support a transaction at that exchange ratio and compromise with a marginally higher exchange ratio. Mr. Malone then requested authority from the LMI board to propose an exchange ratio of 0.215 and a cash election alternative of \$9.55 per share. After discussing the concerns of the board with respect to the time to complete the transaction in light of the uncertainty created by the majority of the minority

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condition and the termination rights Mr. Malone was negotiating for, the LMI board authorized Mr. Malone to propose the foregoing exchange ratio and cash alternative election.

On the afternoon of January 12, 2005, the Special Committee reconvened by telephone with its legal and financial advisors and received reports on conversations with representatives of LMI, who had contacted Debevoise and Morgan Stanley to request a conference call with the Special Committee to continue negotiations.

Thereafter, the Special Committee and its legal and financial advisors met telephonically with Mr. Malone and Ms. Markowski. Mr. Malone informed the Special Committee that, after consultation with the LMI board, LMI's best and final proposal was an exchange ratio of 0.215 LMI shares for each share of UGC with a 20% cash election option at \$9.55 per share. Mr. Malone insisted that the price negotiations be concluded prior to market close in order to protect LMI against further movements in the stock price, which he believed continued to reflect speculation about a possible transaction, and stated that LMI would withdraw from negotiations if there was no agreement in principle on the exchange ratio before market close.

The Special Committee, after separate discussion with its legal and financial advisors, recognized that it had obtained increases in the exchange ratio and cash amount offered by LMI and that the negotiation was likely nearing the point at which the most favorable financial terms that could be obtained from LMI were reached and further negotiation could cause LMI to abandon the transaction. The Special Committee also discussed its concern that upward movements in the public market price of UGC common stock could cause LMI to abandon the transaction. After further discussion, the Special Committee informed the LMI representatives that it would be prepared to recommend the transaction at an exchange ratio of 0.216 LMI shares for each share of UGC with a 20% cash election option at \$9.60 per share. Mr. Malone responded that, subject to receiving approval from the LMI board and only if this proposal was sufficient to obtain agreement, he was prepared to accept an exchange ratio of 0.2155 LMI shares for each share of UGC with a 20% cash election option at \$9.58 per share. The Special Committee and the LMI representatives agreed that they would instruct their respective legal advisors to proceed to negotiate definitive documentation on that basis, with final agreement subject to the successful completion of such documentation, board approval and the receipt by each of LMI and the Special Committee from their respective financial advisors of an opinion as to the fairness, from a financial point of view, of the proposed merger consideration.

On the morning of January 13, 2005, Baker Botts L.L.P., counsel to LMI, delivered to Debevoise an initial draft of a proposed merger agreement. On the morning of January 14, 2005, Debevoise delivered to Baker Botts an initial draft of a proposed voting agreement and provided initial comments to the draft merger agreement. Also on January 14, 2005, the Special Committee met telephonically with its legal advisors to discuss the provisions of the proposed merger agreement.

From January 14 through January 17, 2005, the terms of the merger agreement and the voting agreement were negotiated, including the scope of the representations and warranties that would be provided by each of the parties and the scope of the termination right required by LMI in exchange for agreeing to provide UGC with a majority of the minority voting condition.

On January 17, 2005, the Special Committee met in person in New York with its legal and financial advisors. At this meeting, Morgan Stanley delivered its financial analysis in connection with the proposed transaction and its opinion that, as of the date of the opinion and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the merger consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders. See Fairness Determinations and Recommendations of the Special Committee and the UGC Board. Morgan Stanley also discussed with the Special Committee the impact on the value of LMI's offer of UGC stockholders' elections to receive cash consideration at various LMI share prices. The Special Committee raised questions regarding various aspects of Morgan Stanley's analysis, including the methodologies used and Morgan Stanley's access to information, to which Morgan Stanley responded. The Special Committee also considered and discussed the specific factors described below under Fairness Determination and Recommendations of the Special Committee and the UGC Board Fairness Determination and Recommendation of the Special Committee. The Special Committee then unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests, of the unaffiliated stockholders of UGC, approved the UGC merger and

the merger agreement, the voting agreement and the transactions contemplated thereby and resolved to recommend that the UGC board of directors approve the UGC merger and the merger agreement, the voting agreement and the transactions contemplated thereby, and that the stockholders of UGC approve the UGC merger, the merger agreement and the transactions contemplated thereby.

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Following the meeting of the Special Committee, the UGC board of directors met. The Special Committee reported its recommendation that the UGC board approve and declare advisable the UGC merger, the merger agreement, the voting agreement and the transactions contemplated thereby, and its recommendation that the stockholders of UGC approve the UGC merger, the merger agreement and the transactions contemplated thereby. Morgan Stanley discussed with the UGC board its financial analysis and the opinion that it delivered to the Special Committee, as described under *Opinion of the Financial Advisor to Special Committee*. The UGC board, adopting the analysis of the Special Committee, then unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC. The UGC board also unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and the voting agreement, is fair to, and in the best interests of, UGC and its stockholders, approved the entry into the merger agreement and the other documents contemplated thereby, and resolved to recommend that the holders of UGC capital stock approve the UGC merger and approve and adopt the merger agreement.

On January 17, 2005, the LMI board of directors met to consider the business combination with UGC. Participating in the meeting from Banc of America Securities was a team led by Stephen Ketchum. Ms. Markowski was also present. At this meeting, Mr. Malone recounted for the LMI board the history of the negotiations with the Special Committee. He noted that the relative trading prices of LMI's and UGC's stock implied a ratio of 0.194 to 1 over a period of two to three weeks prior to his initiation of discussions, but that the market price of UGC's stock had climbed during the negotiations increasing the implied exchange ratio. Banc of America Securities then delivered its financial analysis in connection with the proposed transaction and its oral opinion, which was subsequently confirmed in writing, that, as of January 17, 2005 and based upon and subject to the factors, limitations and assumptions set forth in the opinion, the consideration to be received by the holders of LMI's common stock, other than affiliates of LMI, pursuant to the merger agreement is fair from a financial point of view to the holders of LMI's common stock, other than any affiliate of LMI. See *Opinion of LMI's Financial Advisor*. Ms. Markowski reviewed the terms of the merger agreement and the voting agreement to be signed by Mr. Malone, the negotiation of each of which had been completed in all material respects. The LMI board then unanimously approved the merger agreement and determined that the merger agreement and the transactions contemplated thereby, including the LMI merger, are advisable, fair to, and in the best interests, of LMI and its stockholders, determined that the transactions contemplated by the merger agreement, including the UGC merger, are, substantively and procedurally, fair to the unaffiliated stockholders of UGC, approved the entry into the merger agreement, and resolved to recommend that the holders of LMI common stock approve the LMI merger and approve and adopt the merger agreement.

On the evening of January 17, 2005, the parties finalized the merger agreement, including the disclosure schedules to the merger agreement, and, early on the morning of January 18, 2005, executed the merger agreement and the voting agreement. Also on January 18, 2005, LMI and UGC issued a joint press release announcing the merger agreement and the proposed mergers.

### **Fairness Determinations and Recommendations of the Special Committee and the UGC Board**

#### ***The Special Committee***

The UGC board of directors created the Special Committee to negotiate exclusively on UGC's behalf any transaction with LMI, because certain of the other directors of UGC have a conflict of interest in evaluating LMI's proposal on behalf of the stockholders of UGC (other than LMI and its affiliates). This conflict of interest exists because these directors also serve as LMI's officers or directors. In addition, the members of the management of UGC who serve on the UGC board could be viewed as having a conflict of interest because of LMI's position as the controlling stockholder of UGC. Therefore, the Special Committee is comprised of three members of the UGC board who are independent under the rules of the Nasdaq Stock Market and who have no relationship with LMI or any of its affiliates that the Special Committee viewed as undermining the independence of the Special Committee. The Special Committee considered that each member of the committee currently serves as a director of UGC, and that, assuming the consummation of the proposed transaction, each member of the committee expects to serve as a director of Liberty Global. The Special Committee also recognized the following, as to Paul A. Gould: (1) that Mr. Gould currently

serves as a director of Liberty, that Mr. Gould served as a director of Liberty's predecessor (Old Liberty) prior to its 1994 business combination transaction with Tele-Communications, Inc. (TCI), each a company in which Mr. Malone was Chairman of the Board and a significant stockholder, and that Mr. Gould served as a member of the special committee of Old Liberty's board formed to evaluate the transaction with TCI and the consideration to be received by the public stockholders of Old Liberty in that transaction; (2) that subsequent to the 1994 business combination transaction between TCI and Old Liberty, Mr. Gould served as a member of the board of directors of TCI and several companies in which TCI or Liberty had a substantial investment or controlling interest; (3) that, in connection with



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the 1999 merger between TCI and AT&T Corp., Mr. Gould and another TCI director each received a fee of \$1 million for their services on a special committee of the TCI board formed to evaluate the merger transaction with AT&T and the consideration to be received by the public stockholders of TCI in the TCI-AT&T merger; and (4) that Mr. Gould joined the UGC board at the time of Liberty's acquisition of control of UGC in January 2004, after Mr. Gould requested a position on the UGC board as a result of his concerns at that time regarding the progress of UGC's business. The Special Committee noted that Mr. Gould's service on the boards of directors of various entities affiliated with Mr. Malone or in which Mr. Malone, directly or indirectly, was a substantial investor consisted in each case of service as an independent director. The Special Committee deemed Mr. Gould's receipt of fees with respect to this service as a director to be insufficiently material to undermine his independence, given Mr. Gould's personal finances. The Special Committee also noted that neither Mr. Cole nor Mr. Dick had any history of service on boards of directors of entities affiliated with Mr. Malone other than UGC and its subsidiaries, and that the Special Committee did not designate any member as its chairman and took all decisions unanimously. The Special Committee therefore determined that the factors described above regarding Mr. Gould would not undermine the independence of the Special Committee.

The members of the Special Committee are:

*John P. Cole, Jr.* Mr. Cole has served as a director of UGC and its predecessors since March 1998. Mr. Cole served as a member of the United Pan-Europe Communications N.V., or UPC, Supervisory Board from February 1999 to September 2003. Mr. Cole is a founder of the Washington, D.C. law firm of Cole, Raywid and Braverman, which specializes in all aspects of telecommunications and media law.

*John W. Dick.* Mr. Dick has served as a director of UGC since March 2003. He served as a member of the UPC Supervisory Board from May 2001 to September 2003, and a director of UGC Europe, Inc. from September 2003 to January 2004. He is the non-executive Chairman and a director of Hooper Industries Group, a privately held U.K. group consisting of: Hooper and Co (Coachbuilders) Ltd. (building special/bodied Rolls Royce and Bentley motorcars) and Hooper Industries (China) (providing industrial products and components to Europe and the U.S.). Until 2002, Hooper Industries Group also held Metrocab UK (manufacturing London taxicabs) and Moscab (a joint venture with the Moscow city government, producing left-hand drive Metrocabs for Russia). Mr. Dick has held his positions with Hooper Industries Group since 1984. Mr. Dick is also a director of Austar United Communications Limited, a public company in which UGC has an approximate 34% interest.

*Paul A. Gould.* Mr. Gould has served as a director of UGC since January 2004. Mr. Gould has served as Managing Director of Allen & Company L.L.C., an investment banking services company, and has been associated with Allen & Company and its affiliates for more than the last five years. Mr. Gould is also a director of Ampco-Pittsburgh Corporation and Liberty, and has previously served on special committees for other companies, unaffiliated with Liberty, LMI and UGC, with respect to which other companies he has served as a member of the board of directors.

***Fairness Determination and Recommendation of the Special Committee***

On January 17, 2005, the Special Committee unanimously:

determined that the UGC merger, on the terms and conditions set forth in the merger agreement and the voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC; and

determined to approve, and to recommend that the UGC board of directors approve, the UGC merger, the merger agreement, the voting agreement and the transactions contemplated thereby, and that the UGC board recommend that the stockholders of UGC approve the UGC merger, the merger agreement and the transactions contemplated thereby.

The material factors considered by the Special Committee in making its fairness determination and recommendation are:

*Supportive Factors*

*Negotiation Process and Procedural Fairness.* The terms of the UGC merger, the merger agreement, the voting agreement and the transactions contemplated thereby were the result of extensive negotiations conducted by the Special Committee, which is comprised of independent directors, with the assistance of independent financial and legal advisors. The Special Committee recognized that it had obtained increases in the exchange ratio and cash amount offered by LMI, and concluded, based on the business experience of the Special Committee members and their

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knowledge of the negotiation style of the LMI officers leading the discussions for LMI, that an exchange ratio of 0.2155 Liberty Global shares for each share of UGC or a cash amount of \$9.58 per UGC share at the election of the unaffiliated stockholders of UGC (up to an overall cap of 20% of the aggregate value of the merger consideration payable to such stockholders being paid in cash) were the most favorable financial terms that could be obtained from LMI and that further negotiation could have caused LMI to abandon the transaction.

*Independent Financial Advisor.* The Special Committee considered the presentation by its independent financial advisor, Morgan Stanley, and Morgan Stanley's opinion that, as of the date of the opinion and based upon and subject to the assumptions, qualifications and limitations set forth in Morgan Stanley's opinion, the merger consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders. The Special Committee noted that Morgan Stanley had been selected as its financial advisor after a competitive process, based upon the firm's strong reputation, experience in transactions of this kind, experienced Japanese team that was available to assist in analyzing the value of LMI's investment in J-COM and to provide market perspectives as to the prospects for J-COM's planned initial public offering, and knowledge of UGC, its business and the industries in which UGC and LMI operate.

In evaluating the presentation and opinion of Morgan Stanley, which is summarized below under *Opinion of the Financial Advisor to the Special Committee*, the Special Committee considered that Morgan Stanley's compensation arrangements had been structured and negotiated to enhance the firm's ability to provide objective advice to the Special Committee for the benefit of the unaffiliated stockholders of UGC. Morgan Stanley was entitled to receive an initial fee of \$1.0 million at the time the engagement letter was executed. Morgan Stanley became entitled to receive an additional fee of \$4.5 million at the time the Special Committee requested, and Morgan Stanley delivered, an opinion as to the fairness, from a financial point of view, of the merger consideration to be received by the unaffiliated stockholders of UGC. Morgan Stanley would have received the same fee had its opinion been as to the inadequacy of the merger consideration from a financial point of view. Morgan Stanley will not receive any additional compensation upon the successful completion of the UGC merger. The Special Committee believed that this fee arrangement helped advance the interests of the unaffiliated stockholders of UGC by ensuring that the Special Committee received the unbiased advice of its financial advisor.

In evaluating the presentation and opinion of Morgan Stanley, which is summarized below under *Opinion of the Financial Advisor to the Special Committee*, the Special Committee noted that Morgan Stanley considered the results of all of its analyses as a whole and, except as described below, the Special Committee did not attribute any particular weight to any particular analysis or factor considered by it.

The Special Committee was aware that the value of the merger consideration implied by the 0.2155x exchange ratio and the LMI stock price of \$43.69 as of January 14, 2005 was generally lower than the implied merger consideration ranges generated by two of the analyses performed by Morgan Stanley, described below under *Discounted Cash Flow Analysis* and *Equity Research Analysts' Price Targets*.

In considering the discounted cash flow analysis, the Special Committee recognized that Morgan Stanley had calculated a range of potential values for UGC based on UGC management's 2005 projections and long-term guidance and a model Morgan Stanley prepared, prior to its receipt of management's long-term guidance and subsequently adjusted in light of that guidance, based on its review of UGC's historical and budgeted financial performance as well as expected margins and growth rates of other companies in the same industry. The Special Committee discussed Morgan Stanley's observation that its adjusted model reflected a more accurate view of UGC's future performance because it was more in line with UGC's historical and budgeted financial performance as well as expected margins and growth rates of other companies in the same industry. The Special Committee also considered the fact that, in performing its discounted cash flow analyses, Morgan Stanley applied the same discount rates to both the management case and the adjusted model. Morgan Stanley noted that the weighted average cost of capital analysis it had performed to determine these discount rates was based on comparable companies, which Morgan Stanley observed had growth rates in line with those reflected in the adjusted model. Morgan Stanley informed the Special Committee that it did not adjust the discount rates applied to the management case to account for the greater risk and uncertainty of the higher growth rate assumed in the management case. Instead, Morgan Stanley described to the Special Committee the greater risk and uncertainty associated with the management case and pointed out that using a

higher discount rate sometimes associated with higher growth rate scenarios would have resulted in a lower valuation range for UGC than the range resulting from Morgan Stanley's discounted cash flow analysis using the management case. The Special Committee also took into account that the results of Morgan Stanley's analysis of the exchange ratios implied by valuing both UGC and LMI's other principal asset J-COM on a discounted cash flow basis were supportive of the proposed exchange ratio of 0.2155x, as further described below under Opinion of the Financial Advisor to the Special Committee Discounted Cash Flow Analysis.

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The Special Committee also took note of Morgan Stanley's observation that equity research analyst price targets for LMI and UGC varied widely, that research reports available with respect to LMI did not reflect information that was as current as that contained in research reports available with respect to UGC and that equity research analyst price targets, in any event, may not have provided the most reliable estimates of the value of either company.

In reviewing each of the analyses presented by Morgan Stanley, the Special Committee also considered that, as pointed out by Morgan Stanley to the Special Committee, LMI's significant ownership interest in UGC meant that relatively significant increases in the implied value of UGC would be necessary in order to have a material impact on the relative exchange ratio. The Special Committee further discussed that Morgan Stanley had performed other valuation analyses, such as its comparable company and sum-of-the-parts analyses, that were supportive of its opinion. After considering Morgan Stanley's analyses as a whole and the resulting implied going concern value of UGC as described below under *Opinion of the Financial Advisor to the Special Committee* (which analyses were adopted by the Special Committee for this purpose), as well as the various other factors described herein under

*Fairness Determination and Recommendation of the Special Committee*, the Special Committee observed that the merger consideration appeared to be fair to the unaffiliated stockholders of UGC relative to UGC's value as a going concern.

*Holders of Majority of Public Shares Determine Whether Transaction is Completed.* The provisions of the merger agreement permit the holders of a majority of UGC's publicly held shares (excluding shares held by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC) to determine whether to approve the UGC merger. The Special Committee believed that this decision, which it expected would be taken in light of, among other things, the detailed information provided to the stockholders of UGC in this joint proxy statement/prospectus regarding the transaction and the factors considered by the Special Committee and the UGC board of directors in making their respective recommendations would allow each stockholder of UGC to make its own informed judgment as to whether the proposed transactions are in its best interests.

*Premium Analysis.* Based upon the presentation made by Morgan Stanley, the Special Committee discussed the fact that the equity and cash merger consideration represented a premium to the unaffiliated stockholders of UGC relative to many of the benchmarks summarized below under *Opinion of the Financial Advisor to the Special Committee Exchange Ratio and Price Premium Analysis*. The Special Committee reviewed in particular the fact that the equity merger consideration represented an exchange ratio premium of:

5.0% with respect to the average UGC and LMI stock prices for the period since the LMI Series A common stock commenced trading on a when-issued basis on June 2, 2004;

11.6% with respect to the UGC and LMI closing stock prices on December 10, 2004, the day on which LMI delivered a letter to UGC indicating that LMI wished to initiate discussions between the parties; and

1.1% with respect to the UGC and LMI closing stock prices on January 11, 2005, the last trading day prior to the agreement in principle between the Special Committee and LMI on the exchange ratio.

The Special Committee also discussed the fact that the equity merger consideration represented an exchange ratio discount with respect to other benchmarks presented by Morgan Stanley, including a discount of approximately 3.6% with respect to the UGC and LMI closing stock prices on November 11, 2004 and of 2.3% with respect to the UGC and LMI closing stock prices on January 14, 2005. The Special Committee considered Morgan Stanley's observation that the proposed exchange ratio would have represented a premium to the unaffiliated stockholders of UGC on 135 of the 158 trading days between June 2, 2004, the day on which the LMI Series A common stock commenced being publicly traded on a when-issued basis, and the last trading date before the entry into the merger agreement.

After discussions with Morgan Stanley, the Special Committee further concluded that the range of historical exchange ratios and the long-term valuations of UGC and LMI provided by Morgan Stanley, and described below under

*Opinion of the Financial Advisor to the Special Committee*, were more accurate indicators of the underlying values of UGC and LMI than either of their market closing prices on any particular closing date, and that these factors supported the view that the proposed transaction is fair to the unaffiliated stockholders of UGC. In reaching this

conclusion, the Special Committee reviewed and discussed with Morgan Stanley its presentation as described below under Opinion of the Financial Advisor to the Special Committee, including in particular the matters described under the captions Comparable Company Analysis and Sum-of-the-Parts Analysis.

The Special Committee also considered Morgan Stanley's observation, as described further below under Opinion of the Financial Advisor to the Special Committee Sum-of-the-Parts Analysis, that the public market trading price of LMI's common stock likely reflected a holding company discount of approximately 10% to 20%, which was to a meaningful degree related to LMI's interest in UGC. The Special Committee further focused on Morgan Stanley's observation that LMI's holding company discount could be expected to be appreciably reduced as a consequence of the proposed mergers, and that this development would benefit the unaffiliated stockholders of UGC electing to receive

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Liberty Global common stock in the mergers. For example, Morgan Stanley's sum-of-the-parts analysis of LMI, excluding the effect of the holding company discount, implied that the fair value of LMI's common stock fell within a range of \$48.86 to \$51.13 per share. The Special Committee took into account Morgan Stanley's observation that this fair value range further implied that the Liberty Global common stock to be received by the unaffiliated stockholders of UGC represented a meaningful premium to UGC's stock price of \$9.64 as of January 14, 2005, which was within the range of approximately 9.2% to approximately 14.3%.

The Special Committee also considered Morgan Stanley's observation that, in transactions involving stock consideration, premiums paid by the acquirer are generally smaller than in all-cash transactions in recognition of the target stockholders' continuing opportunity to benefit from the performance of the combined company and to realize the benefits of the combination. In reviewing the benchmarks presented by Morgan Stanley, the Special Committee also took into account that, as pointed out by Morgan Stanley to the Special Committee as noted above, LMI's significant ownership interest in UGC meant that relatively significant increases in the implied value of UGC would be necessary in order to have a material impact on the relative exchange ratio and corresponding premium paid. The Special Committee concluded that a very large premium in this context was therefore unlikely.

*Option to Receive Cash Provides Some Protection Against Stock Price Declines.* The Special Committee considered that the option to elect to receive cash for up to 20% of the aggregate value of the merger consideration payable to the unaffiliated stockholders of UGC provides some protection to the unaffiliated stockholders of UGC if the price of LMI's stock declines prior to closing.

*Opportunity Benefits of Participation in the Combined Company.* Because unaffiliated stockholders of UGC will have the option to receive up to 100% of the merger consideration in stock of the combined company, they will have the opportunity to participate in the benefits expected to be realized by the transaction in the future.

UGC management and Morgan Stanley discussed with the Special Committee potentially significant synergies, strategic opportunities and other benefits that the unaffiliated stockholders of UGC would have the opportunity to participate in as stockholders of the combined company. The benefits discussed included: the creation of a company able to operate around the world and achieve the benefits of such scale; the creation of a more liquid stock with larger public float, which should also represent a stronger acquisition currency; reduction of the holding company discount thought to be reflected in the public market trading price of LMI's common stock and the consequent anticipated increase in the value of the Liberty Global common stock to be received by the unaffiliated stockholders of UGC in the mergers; enhanced position with vendors, manufacturers and content providers; enhanced growth potential given stronger position to pursue distribution, consolidation and content investment opportunities; a strong balance sheet, which should reduce the combined company's future financing costs; and organizational and corporate synergies.

*Confidence in Combined Company Management.* The Special Committee took into account that the Chief Executive Officer of the combined company would be Michael T. Fries, the current Chief Executive Officer of UGC. The Special Committee determined that its familiarity with Mr. Fries' abilities and past performance gave increased confidence that the intended benefits of the UGC merger would be achieved.

*Investment in Japanese Distribution and Content Assets at an Attractive Valuation.* The Special Committee considered the valuations implied by Morgan Stanley's analysis of the Japanese distribution and content assets to be contributed to the combined company by LMI in the mergers and, after discussions with Morgan Stanley regarding comparable valuation multiples for similar assets in the industry, found them attractive as a financial matter. In particular, the Special Committee discussed Morgan Stanley's analysis that the proposed transaction implied UGC stockholders would receive a stake in the assets of Jupiter Telecommunications Co, Ltd., or J-COM, at a valuation multiple of 5.9 times J-COM's 2005 estimated EBITDA, as compared to comparable company analyses provided by Morgan Stanley indicating that valuation multiples of 9 to 10 times J-COM's estimated 2005 EBITDA would be within a market range for similar assets (which was also the approximate indicated initial public offering filing range for J-COM at the time of Morgan Stanley's analysis). The Special Committee took into account Morgan Stanley's observation that the opportunity to acquire a stake in the J-COM assets at an implied valuation multiple considerably lower than market comparable valuation multiples for similar assets was attractive as a financial matter to the unaffiliated stockholders of UGC, since this would mean that such stockholders would have the opportunity to acquire a stake in these assets at a favorable implied price. As described below under *Opinion of the Financial Advisor to the*

Special Committee Sum-of-the-Parts Analysis, Morgan Stanley observed that each additional 2005 estimated J-COM EBITDA multiple represented approximately \$1.40 in value per share of LMI common stock. This is equivalent to approximately \$4.34 to \$5.74 in additional value per share of LMI common stock when comparing an EBITDA multiple of 5.9x to an EBITDA multiple range of 9.0x to 10.0x. The Special Committee further discussed its view that these assets offered growth opportunities to the unaffiliated stockholders of UGC in diverse markets. The



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Special Committee believed that this opportunity for the unaffiliated stockholders of UGC to participate in the value of J-COM at a relatively attractive valuation supported the view that the merger is fair to such stockholders.

*Improved Management Attention and Focus.* Because LMI and UGC operate similar businesses in many respects, their current structure creates significant long-term potential for conflicts between the two companies over the exploitation of commercial opportunities. The Special Committee observed that uniting the two businesses under a single management team will eliminate any such conflicts, permit a unified management team to pursue opportunities more efficiently and provide UGC with the full benefit of the LMI senior management team's judgment and experience.

*Improved Equity Position.* The Special Committee discussed the fact that, as a result of the UGC merger and assuming that all unaffiliated stockholders of UGC elect to receive Liberty Global stock, the unaffiliated stockholders of UGC would hold approximately 25% of the aggregate voting power of Liberty Global, which would have no single stockholder or group of stockholders exercising voting control over the combined company. This contrasts to the current situation of unaffiliated stockholders of UGC, who have a minority voting interest in a company controlled by LMI.

*Intention to Commence Share Repurchases.* The Special Committee discussed the fact that LMI had stated that, given the substantial liquidity and free cash flow profile of the combined company, LMI expected that the Liberty Global board of directors would authorize a stock repurchase program following the combination. The Special Committee determined that this expectation underscored LMI's belief in the value of the combined business. LMI and UGC subsequently announced that they expect the Liberty Global board to authorize such a program and that any share repurchases under the program would occur from time to time in the open market or in privately negotiated transactions, subject to market conditions.

*Growth Opportunities.* The Special Committee recognized the opportunity for growth to be greater as part of the combined company. Important opportunities to acquire assets from third parties are expected to arise in Europe in the near future, and UGC's ability to avail itself of these opportunities will be greatly enhanced by a combination with LMI. The Special Committee also took into account that the Japanese business interests owned by LMI provide significant opportunities for growth, both within Japan and in other important Asian growth markets. The combined company is expected to have a significantly stronger balance sheet than UGC and the ability to offer stock as an acquisition currency at more favorable valuations.

*Diversification Benefits.* The Special Committee discussed the fact that by combining UGC's principally European and Latin American business with LMI's Japanese business, UGC stockholders would own a company with a more diverse portfolio of investments, which would be better able to weather economic change including fluctuations in foreign exchange rates.

*Absence of Ability to Sell UGC to Third Party.* LMI informed the Special Committee early in the negotiations that it was not interested in pursuing a sale of all of its interest in UGC. In light of LMI's intentions, the Special Committee concluded that realization of third party sale value or causing a sale of a substantial portion, in a liquidation, break-up or similar transaction, of UGC's assets were not alternatives available to UGC. Consequently, the Special Committee considered a transaction with LMI or continuing UGC as a publicly traded entity, with LMI remaining as controlling stockholder, as the only practical alternatives available. The Special Committee determined that the merger afforded the unaffiliated stockholders of UGC the opportunity to participate in the benefits of the combined company described above under Opportunity Benefits of Participation in the Combined Company, as well as the other benefits described above under Investment in Japanese Distribution and Content Assets at an Attractive Valuation, Improved Management Attention and Focus, Growth Opportunities and Diversification Benefits. The Special Committee determined that none of these benefits would be available to the unaffiliated stockholders of UGC if UGC continued as a publicly traded company with LMI as its controlling stockholder and deemed this alternative inferior to the proposed transaction.

*Terms of Merger Agreement.* The Special Committee considered the draft merger agreement and the summary of the key terms and provisions thereof provided by its counsel. The Special Committee concluded that the terms and provisions of the merger agreement were customary for transactions of this kind and provided appropriate protections to the unaffiliated stockholders of UGC. The merger agreement provides only limited circumstances under which LMI

is permitted to not close the transaction, and any termination of the merger agreement by UGC must be approved by the Special Committee. The voting agreement entered into by Mr. Malone, pursuant to which he agreed to vote the LMI shares that he owns or which he has the right to vote (representing, as of December 31, 2004, approximately 26.5% of the aggregate voting power of LMI) in favor of the merger agreement and the LMI merger, increases the likelihood that the merger agreement and the LMI merger will be approved by the LMI stockholders.

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*Financing of Transaction.* The Special Committee considered the fact that LMI has available to it sufficient cash to pay the cash portion of the merger consideration and the combined company will have sufficient cash to fund the potential stock purchase program described above after the closing.

*Stock Consideration Non-Taxable.* The Special Committee considered that the receipt of Liberty Global stock by the unaffiliated stockholders of UGC validly electing to receive stock as merger consideration will generally not be taxable to such stockholders.

### *Negative Factors*

*Market Price of Shares.* The Special Committee discussed the fact that the relative trading prices of UGC and LMI at the market close on January 14, 2005 implied that LMI would be acquiring the shares of UGC held by the unaffiliated stockholders of UGC at a very slight discount to market. See the discussion above under **Supportive Factors** Premium Analysis.

*Exposure to Japanese Market.* While acknowledging the diversification opportunity that LMI's investments in the Japanese broadband and programming markets offers the unaffiliated stockholders of UGC, the Special Committee also considered the fact that such diversification carried with it exposure to new and different risk factors for the unaffiliated stockholders of UGC, including exposure to downturns in the Japanese economy and new foreign currency exchange risks.

*Tax Treatment.* The Special Committee took into account that the receipt of the \$9.58 per share cash price available to the unaffiliated stockholders of UGC validly electing to receive cash consideration, subject to proration, will generally be taxable to such stockholders.

*Risks the Mergers May Not be Completed.* The Special Committee considered the risk that the conditions to the merger agreement may not be satisfied and, therefore, that the UGC merger may not be consummated.

### *Matters Not Considered*

The Special Committee did not consider the third party sale value or liquidation or break-up value of UGC's assets because LMI stated, after inquiry by the Special Committee, that it was not willing to pursue these alternatives. As the beneficial owner of a majority of the aggregate voting power of UGC's stock, LMI can prevent the pursuit of these alternatives. The Special Committee did not consider the net book value of UGC to be a useful indicator of UGC's value because UGC's value as a going concern, as reflected in the analyses thereof by Morgan Stanley described below under **Opinion of the Financial Advisor to the Special Committee** and adopted by the Special Committee for this purpose, exceeds its net book value and because the Special Committee believed that the net book value of UGC is indicative of historical costs but is not a material indicator of the value of UGC as a going concern.

### *Other Matters Considered*

*Conflicts of Interest.* The Special Committee was aware of the conflicts of interest of the members of the UGC board of directors who are also officers or directors of LMI, as well as the potential conflicts of interest of management representatives on the UGC board. The Special Committee believes that the process of using a committee of independent directors that acted unanimously, together with the condition that the UGC merger and the merger agreement be approved by a majority of the stockholders of UGC (other than LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC), effectively mitigates these potential conflicts.

This discussion summarizes the material factors considered by the Special Committee, including factors that support as well as weigh against the UGC merger, the merger agreement, the voting agreement and the transactions contemplated thereby. In view of the variety of factors and the amount of information considered, the Special Committee did not find it practicable to, and did not, make specific assessments of, quantify, or otherwise assign relative weights to these factors in reaching its determination. In addition, individual members of the Special Committee may have given different weights to different factors. The determination that the UGC merger, on the terms and conditions set forth in the merger agreement and the voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC was made after consideration of all of these factors as a whole. The Special Committee concluded that the supportive factors outweighed the negative factors.



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***Fairness Determination and Recommendation of the UGC Board***

Following the meeting of the Special Committee, based upon the recommendation of the Special Committee and adopting the analysis of the Special Committee, the UGC board unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is substantively and procedurally fair to, and in the best interests of, the unaffiliated stockholders of UGC. The UGC board also unanimously determined that:

the UGC merger, on the terms and conditions set forth in the merger agreement and the voting agreement, is fair to, and in the best interests of, UGC and its stockholders;

authorized UGC to enter into the merger agreement and the voting agreement;

resolved to recommend that the UGC stockholders approve the UGC merger and approve and adopt the merger agreement; and

resolved to call a special meeting of the UGC stockholders for the purpose of submitting the merger agreement and the transactions set forth therein to the UGC stockholders.

In addition to the analysis of the Special Committee, which was adopted by the UGC board in reaching its fairness determination, the UGC board of directors considered that the Special Committee received from Morgan Stanley an opinion that, as of the date of the opinion and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the merger consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders.

**Opinion of the Financial Advisor to the Special Committee**

The Special Committee engaged Morgan Stanley to provide financial advisory services in connection with the UGC merger. Morgan Stanley was selected by the Special Committee based upon Morgan Stanley's qualifications, expertise and reputation and the experienced Japanese team that was available to assist in analyzing the value of LMI's investment in J-COM, as well as its knowledge of the business and affairs of UGC and the industries in which UGC and LMI operate. At a meeting of the Special Committee held on January 17, 2005, Morgan Stanley delivered its oral opinion, subsequently confirmed in writing, that, as of that date, and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders.

**The full text of Morgan Stanley's opinion, dated January 17, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion, is included as Appendix D to this joint proxy statement/ prospectus. The summary of Morgan Stanley's fairness opinion set forth in this joint proxy statement/ prospectus is qualified in its entirety by reference to the full text of the opinion. Stockholders should read this opinion carefully and in its entirety. Morgan Stanley's opinion is directed to the Special Committee and only addresses the fairness from a financial point of view of the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement. Morgan Stanley's opinion does not address any other aspect of the mergers and does not constitute a recommendation to any UGC stockholder as to how to vote at the UGC stockholders' meeting or as to what form of consideration UGC stockholders should elect. Morgan Stanley has consented to the inclusion of its opinion and the summary of its opinion in this joint proxy statement/ prospectus. By rendering its opinion and giving such consent Morgan Stanley has not admitted that it is an expert with respect to any part of this joint proxy statement/ prospectus within the meaning of the term "expert" as used in, or that Morgan Stanley comes within the category of persons whose consent is required under, the Securities Act or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.**

In connection with rendering its opinion, Morgan Stanley, among other things:

reviewed certain publicly available financial statements and other information of UGC and LMI;

reviewed certain internal financial statements and other financial and operating data concerning UGC and LMI prepared by the managements of UGC and LMI, respectively;

reviewed certain financial projections prepared by the respective managements of UGC and LMI;

discussed the past and current operations and financial condition and prospects of UGC and LMI with senior executives of UGC and LMI, respectively;

considered information relating to certain strategic, financial and operational benefits anticipated from the UGC merger, discussed with the management of UGC;

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discussed the strategic rationale for the UGC merger with the senior executives of UGC;

reviewed the reported prices and trading activity of the UGC Class A common stock and the LMI Series A common stock;

compared the financial performance of UGC and LMI, as well as the prices and trading activity of the UGC Class A common stock and the LMI Series A common stock with that of certain other comparable publicly-traded companies and their securities;

reviewed the financial terms, to the extent publicly available, of selected minority buy-back transactions;

participated in discussions and negotiations among representatives of UGC and LMI and their respective financial and legal advisors;

reviewed the proposed merger agreement and certain related documents; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by Morgan Stanley for the purposes of its opinion. With respect to the internal financial statements, other financial and operating data, and financial forecasts, including information relating to certain strategic, financial and operational benefits anticipated from the UGC merger, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting best available estimates and judgments of the future financial performance of UGC and LMI. Morgan Stanley also relied without independent investigation on the assessment by the executives of UGC regarding the strategic rationale for the UGC merger. In addition, Morgan Stanley assumed that the mergers will be consummated in accordance with the terms set forth in the proposed merger agreement, including, among other things, that the LMI merger and UGC merger will be treated as a tax-free reorganization and exchange, respectively, each pursuant to the Code, without material modification, delay or waiver. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities or technologies of UGC or LMI, nor was Morgan Stanley furnished with any such appraisals. Morgan Stanley's opinion is necessarily based upon financial, economic, market and other conditions as in effect on, and the information made available to it as of, January 17, 2005.

In arriving at its opinion, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to an acquisition, business combination or other extraordinary transaction involving UGC or its assets.

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its opinion. Some of these summaries include information presented in tabular format. In order to understand fully the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses used by Morgan Stanley.

***Historical Share Price Analysis***

Morgan Stanley reviewed the historical price performance and trading volumes of UGC Class A common stock from January 20, 2004 through January 14, 2005, and of LMI Series A common stock from June 2, 2004 through January 14, 2005. For the period that Morgan Stanley reviewed UGC's share price, the high and low closing prices were \$10.60 and \$6.00, respectively, and for the period that Morgan Stanley reviewed LMI's share price, the high and low closing prices were \$47.27 and \$29.15, respectively.

Morgan Stanley also reviewed the respective recent stock price performances of UGC Class A common stock and LMI Series A common stock in comparison to the stock price performances of selected comparable companies, as well as with the S&P 500. Morgan Stanley observed the appreciation or depreciation in closing market prices over certain time periods as shown below:

**Appreciation/(Depreciation)**

**Appreciation**

| <b>Company</b>            | <b>1/20/04 to 1/14/05</b> | <b>6/2/04(1) to<br/>1/14/05</b> |
|---------------------------|---------------------------|---------------------------------|
| UGC                       | (9.1)%                    | 29.4%                           |
| LMI                       | NA                        | 13.8%                           |
| Comcast Corp.             | (5.8)%                    | 16.6%                           |
| NTL Inc.                  | (0.6)%                    | 10.8%                           |
| Cablevision Systems Corp. | (9.9)%                    | 13.5%                           |
| S&P 500                   | 4.0%                      | 5.3%                            |



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(1) Date on which LMI common stock began trading on a when-issued basis prior to LMI's spin off from Liberty. The foregoing historical share price analysis was presented to the Special Committee to provide it with background information and perspective with respect to the relative historical share prices and share price performances of UGC and LMI. No company used in the share price performance analysis is identical to UGC or LMI because of differences in business mix, operations and other characteristics.

***Comparable Company Analysis***

Morgan Stanley compared certain publicly available financial information of UGC with corresponding publicly available information for the following cable companies:

**U.S. Cable Companies**

Comcast Corp.

Cablevision Systems Corp.

Charter Communications, Inc.

Insight Communications Co.

**European Cable Companies**

NTL Inc.

Telewest Global Inc.

For each of the comparable companies, Morgan Stanley calculated the current cable aggregate value, defined as equity value plus net debt and minority interests and less unconsolidated and non-cable assets, as a multiple of 2005 estimated earnings before expenses for interest, taxes, depreciation and amortization, or EBITDA, based upon publicly available information, including reports of equity research analysts. The multiples calculated in this analysis are referred to in this section as the aggregate value/2005E EBITDA multiples.

Morgan Stanley calculated implied equity values per share of UGC common stock by applying aggregate value/2005E EBITDA multiples ranging from 8.0x to 9.0x to UGC's 2005 estimated EBITDA, as provided by UGC management, and to UGC's 2005 estimated EBITDA as provided by management and converted at a current spot rate of US\$1.31 per Euro. The following table presents the ranges of equity values per common share implied by this analysis:

|   | <b>Implied Equity<br/>Value Per Share<br/>of UGC<br/>Common Stock</b> |             |
|---|---|-------------|
|   | <b>Low</b>  | <b>High</b> |
| 2005E EBITDA, as provided by UGC management   | \$ 8.17   | \$ 9.53     |
| 2005E EBITDA, as provided by UGC management and converted at US\$1.31 per Euro spot exchange rate | \$ 8.82   | \$ 10.27    |

Morgan Stanley noted that the value of the stock consideration per share of UGC common stock implied by the 0.2155x exchange ratio and LMI's stock price of \$43.69 as of January 14, 2005 was \$9.42, and that the cash consideration was \$9.58 per share of UGC common stock.

No company used in the comparable company analysis is identical to UGC because of differences between the business mix, operations and other characteristics of UGC and the comparable companies. In evaluating the comparable companies, Morgan Stanley made judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of UGC, such as the impact of currency exchange rates, competition on the business of UGC as well as on the industry generally, industry growth and the absence of any adverse material change in the financial condition and prospects of

UGC or the industry or in the markets generally.

***Discounted Cash Flow Analysis***

Morgan Stanley performed a discounted cash flow analysis of the projected unlevered free cash flows of UGC. This analysis was based upon 2005 projections and long-term growth assumptions for the period beginning January 1, 2005 and ending December 31, 2009 prepared by UGC management.

Morgan Stanley calculated implied equity values per share of UGC common stock by using discount rates ranging from 8% to 10% and terminal value multiples of estimated 2010 EBITDA ranging from 7.5x to 8.5x. Morgan Stanley

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calculated different ranges of equity values per share of UGC common stock by utilizing the 2005 projections and long-term growth rate guidance provided by UGC management, as well as sensitivities performed by Morgan Stanley adjusting for various revenue growth rates and EBITDA margins. The following table presents the ranges of implied equity values per share of UGC common stock implied by this analysis:

|  | <b>Implied Equity Value Per Share of UGC Common Stock</b> |             |
|--|---|-------------|
|  | <b>Low</b>  | <b>High</b> |
| Analysis Utilizing Sensitivities                           | \$ 9.58   | \$ 12.05    |
| Analysis Utilizing UGC Management Projections and Guidance | \$ 12.83  | \$ 15.89    |

Morgan Stanley noted that the value of the stock consideration per share of UGC common stock implied by the 0.2155x exchange ratio and LMI's stock price of \$43.69 as of January 14, 2005 was \$9.42, and that the cash consideration was \$9.58 per share of UGC common stock.

Morgan Stanley performed an initial discounted cash flow analysis of UGC, prior to its receipt of management long-term guidance, based principally on UGC's historical financial performance and 2005 projections, publicly available research reports and financial benchmarks of other comparable companies. Morgan Stanley subsequently received long-term growth rate guidance from UGC management that exceeded, to a significant degree, the growth rates observed by Morgan Stanley in its analysis. Based on UGC management's guidance, Morgan Stanley refined its initial discounted cash flow analysis with respect to projected growth and margin expansion, while remaining cognizant of UGC's historical and budgeted benchmarks, as well as comparable company benchmarks.

The discount rates used in the discounted cash flow analysis of UGC reflect UGC's weighted average cost of capital. The weighted average cost of capital represents the cost of capital for UGC based upon the relative proportion of debt, preferred equity and common equity employed by UGC. The terminal EBITDA multiple range used in the discounted cash flow analysis was based upon a review of the trading multiples for, and the business position of, UGC and other comparable companies, as well as reviewing implied perpetual growth rates.

Morgan Stanley also performed a discounted cash flow analysis to derive an implied valuation of LMI's 45.45% stake in J-COM. Using discount rates ranging from 8% to 10% and terminal value multiples of estimated 2010 EBITDA, based on projections provided by LMI management, ranging from 7.5x to 8.5x, Morgan Stanley calculated an implied valuation range for LMI's 45.45% stake in J-COM of \$2.1 billion to \$2.7 billion. Morgan Stanley then calculated the exchange ratios implied by assuming illustrative per share values for UGC common stock (based on its discounted cash flow analysis of UGC) of \$10.00, \$11.00 and \$12.00, on the one hand, and implied per share values of LMI common stock (calculated as an aggregate of the implied value of LMI's 45.45% stake in J-COM described above, the implied value of LMI's UGC holdings based on the illustrative per share values for UGC common stock described above, and the other valuations of LMI's assets derived in connection with Morgan Stanley's sum-of-the-parts analysis described below, in each case on a per LMI share basis), on the other hand. The results of this analysis are set forth below:

| <b>Illustrative UGC DCF Value Per Share</b> | <b>Implied Per Share Value of LMI Common Stock, Based on Illustrative J-COM DCF Value (LMI's Stake in J-COM)</b> |             | <b>Implied Exchange Ratio</b> |
|---|--|-------------|-------------------------------|
|   | <b>Low</b>   | <b>High</b> |                               |

|         | <b>\$2,100</b> | <b>(In millions)</b> | <b>\$2,700</b> |                    |
|---------|----------------|----------------------|----------------|--------------------|
| \$10.00 | \$ 52.80       |                      | \$ 56.17       | 0.1894x to 0.1780x |
| \$11.00 | \$ 55.18       |                      | \$ 58.56       | 0.1993x to 0.1879x |
| \$12.00 | \$ 57.57       |                      | \$ 60.94       | 0.2085x to 0.1969x |

Morgan Stanley observed that the 0.2155x exchange ratio in the merger exceeded the exchange ratios implied by this analysis. Morgan Stanley also observed the per share value of LMI common stock of \$52.80 to \$60.94 implied by the discounted cash flow analysis described above, which further implied an exchange ratio of 0.1582x to 0.1826x (based on UGC's share price of \$9.64 as of January 14, 2005) and represented premiums of approximately 21% to approximately 39% to the closing per share price of LMI Series A common stock of \$43.69 on January 14, 2005. While discounted cash flow analysis is a widely accepted and practiced valuation methodology, it relies on a number of assumptions including growth rates, terminal multiples, discount rates and currency exchange rates. The valuation stated above is not necessarily indicative of UGC's actual, present or future value or results, which may be more or less favorable than suggested by this type of analysis.

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***Sum-of-the-Parts Analysis***

Morgan Stanley performed an analysis of LMI as the sum of its constituent businesses and performed financial analyses on the assets represented by LMI's investments in the following entities:

UGC

Jupiter Telecommunications Co., Ltd.

Jupiter Programming Co., Ltd.

Liberty Cablevision of Puerto Rico Ltd.

Mediatti Communications, Inc.

Chofu Cable, Inc.

Pramer S.C.A.

Metrópolis-Intercom S.A.

Torneos y Competencias, S.A.

The News Corporation Limited

The Wireless Group plc

ABC Family Worldwide, Inc.

This analysis was performed to determine an implied valuation range for LMI common stock.

Morgan Stanley reviewed various publicly available financial, operating and stock market information, as well as financial data and forecasts provided by LMI management, for the individual LMI businesses. Based upon this data, Morgan Stanley estimated implied value ranges for each constituent business by applying analyses as appropriate for the individual business segments, including analyses based upon book value, per subscriber value, multiples to 2004 and 2005 estimated EBITDA, as provided by LMI management and publicly available research reports, and public market value, taking into account applicable tax rates. The multiples for the various assets used in the sum-of-the-parts analysis were arrived at after a review of publicly traded companies with a similar operating profile to the LMI assets. Market position, growth prospects and profitability were a few of the many factors used in comparing the LMI assets to the publicly traded comparables.

This analysis yielded an implied valuation range of LMI common stock of \$48.86 to \$51.13 per share, which further implied an exchange ratio of 0.1885x to 0.1973x based on UGC's share price of \$9.64 as of January 14, 2005. Morgan Stanley noted the impact of a holding company discount on LMI's common stock, which had been widely acknowledged by the research community, that likely causes the stock to trade at a discount to the sum-of-the-parts of LMI. To approximate the effect of this holding company discount, Morgan Stanley applied discount rates of 10%, 15% and 20% to the \$48.86 to \$51.13 per share valuation range implied by Morgan Stanley's sum-of-the-parts analysis of LMI. Applying these discounts yielded an implied valuation range of LMI common stock of \$44.26 to \$48.83 per share, which further implied an exchange ratio range of 0.1974x to 0.2178x based on UGC's share price of \$9.64 as of January 14, 2005. Morgan Stanley also noted that the closing price per share of LMI Series A common stock on January 14, 2005 was \$43.69 per share.

In performing the sum-of-the-parts analysis described above, Morgan Stanley included an implied valuation range for J-COM of \$1.5 billion to \$1.8 billion, which Morgan Stanley calculated by applying multiples ranging from 9.0x to 10.0x to J-COM's 2005 estimated EBITDA, as provided by LMI management. Morgan Stanley applied the 9.0x to

10.0x multiple range based on its review of publicly traded companies with similar operating profiles to J-COM, taking into account market position, growth prospects and profitability.

Morgan Stanley further observed the implied valuation of J-COM based on the 0.2155x exchange ratio. Assuming UGC and LMI valuations based on LMI's share price of \$43.69 as of January 14, 2005 and UGC's implied share price of \$9.42, and based on the 0.2155x exchange ratio as well as the \$1.3 billion valuation for LMI's other assets (excluding J-COM and UGC) derived in connection with the LMI sum-of-the-parts analysis, Morgan Stanley noted that the resulting 2005 estimated EBITDA multiple for J-COM was 5.9x, which represented a meaningful discount to the 9.0x to 10.0x multiple range referenced above as the range implied by comparable companies and that was also the approximate indicated initial public offering filing range for J-COM at the time of its analysis. Based on the J-COM projections provided by LMI management, Morgan Stanley noted that each additional 2005 estimated J-COM EBITDA multiple represented approximately \$1.40 in value per share of LMI common stock.

**Table of Contents*****Equity Research Analysts Price Targets***

Morgan Stanley reviewed the range of available price targets prepared and published by equity research analysts for UGC Class A common stock and LMI Series A common stock during the periods from September 22, 2004 to January 14, 2005 for UGC and from November 15, 2004 to December 8, 2004 for LMI. These price targets reflect each analyst's estimate of the future public market trading price of UGC Class A common stock or LMI Series A common stock, as applicable, at the end of the relevant period considered for each estimate. Applying a discount rate of 10% to these price targets, Morgan Stanley arrived at a range of present values for the per share price targets as of January 2005. The results of this analysis are set forth below:

|     | <b>Present Value of<br/>Research Price<br/>Targets for UGC<br/>Class A<br/>Common Stock</b> |             |
|-----|---|-------------|
|     | <b>Low</b>  | <b>High</b> |
| UGC | \$ 9.70   | \$ 13.88    |
| LMI | \$ 37.57  | \$ 46.73    |

Morgan Stanley noted that the analysis summarized above included present values with respect to two research price targets for UGC Class A common stock that had been increased on January 14, 2005 from prior research reports. On January 14, 2005, Morgan Stanley issued a new research report increasing its price target for UGC Class A common stock from \$9.00, or \$8.31 at present value, to \$11.00, or \$10.00 at present value. Also on January 14, 2005, Janco Partners issued a new research report increasing its price target for UGC Class A common stock from \$12.43, or \$11.48 at present value, to \$15.27, or \$13.88 at present value.

Morgan Stanley also noted that research reports available with respect to LMI did not reflect information that was as current as that contained in the research reports available with respect to UGC and that the public market trading price targets published by the securities research analysts do not reflect current market trading prices and are subject to uncertainties, including the future financial performances of UGC and LMI, as applicable, and future financial market conditions.

***Precedent Transaction Analysis***

Morgan Stanley reviewed publicly available information with respect to selected minority buy-back transactions. The transactions reviewed included transactions involving cash and/or stock consideration with aggregate transaction values in excess of \$1 billion, referred to in this section as the cash/stock transactions, and stock only transactions with aggregate transaction values in excess of \$500 million, referred to in this section as the stock-only transactions. For each transaction, Morgan Stanley analyzed, as of the announcement date, the premium offered by the acquiror to the target's closing price one day prior to the announcement of the transaction. In the cash/stock transactions, the range of final premiums was 10.5% to 47.6%, with a median of 23.5%. In the stock-only transactions, the range of final premiums was 2.3% to 47.6%, with a median of 19.4%. The foregoing precedent transaction analysis was presented to the Special Committee to provide it with background information and perspective in connection with its review of the UGC merger.

No company or transaction utilized in the analysis of selected precedent transactions is identical to UGC, LMI or the UGC merger. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using precedent transaction data.

**Table of Contents****Exchange Ratio and Price Premium Analyses**

Morgan Stanley reviewed the ratios determined by dividing the closing prices of UGC Class A common stock by the closing prices of LMI Series A common stock for certain periods from June 2, 2004 to January 14, 2005. Morgan Stanley then examined the premiums represented by the exchange ratio of 0.2155 pursuant to the merger agreement as compared to these ratios of closing market prices of UGC common stock to LMI common stock. The results of this analysis are set forth below:

| <b>Period/Benchmark</b>   | <b>Ratio of UGC<br/>Price(s) to<br/>LMI Closing Price(s)</b> | <b>0.2155 Exchange<br/>Ratio<br/>%<br/>Premium/(Discount)</b> |
|---|--|---|
| January 14, 2005  | 0.2206x  | (2.3)%  |
| January 11, 2005  | 0.2131x  | 1.1%  |
| December 14, 2004   | 0.1914x  | 12.6%   |
| December 10, 2004   | 0.1931x  | 11.6%   |
| November 11, 2004   | 0.2235x  | (3.6)%  |
| High UGC Class A Common Share Price since<br>June 2, 2004                             | 0.2239x  | (3.8)%  |
| Low UGC Class A Common Share Price since<br>June 2, 2004                              | 0.1853x  | 16.3%   |
| Five Trading Day Average During the Period<br>from June 2, 2004 to January 14, 2005   | 0.2178x  | (1.0)%  |
| Ten Trading Day Average During the Period<br>from June 2, 2004 to January 14, 2005    | 0.2133x  | 1.0%  |
| Twenty Trading Day Average During the Period<br>from June 2, 2004 to January 14, 2005 | 0.2103x  | 2.5%  |
| Three-Month Average During the Period from<br>June 2, 2004 to January 14, 2005        | 0.2060x  | 4.6%  |
| Average Since June 2, 2004  | 0.2053x  | 5.0%  |

Morgan Stanley also examined the implied percentage premium of the \$9.42 implied stock consideration, as of January 14, 2005, and of the \$9.58 cash consideration, each as compared to UGC's Class A common stock closing prices over various periods. The results of this analysis are set forth below:

| <b>Time Period/Benchmark</b> | <b>UGC<br/>Share<br/>Price</b> | <b>Implied Price Premium/(Discount)</b>                  |                                      |
|------------------------------|--------------------------------|--|--------------------------------------|
|                              |                                | <b>\$9.42<br/>Implied<br/>Stock<br/>Consideration(1)</b> | <b>\$9.58 Cash<br/>Consideration</b> |
| January 14, 2005             | \$ 9.64                        | (2.3)%   | (0.6)%                               |
| January 11, 2005             | \$ 9.26                        | 1.7%   | 3.5%                                 |
| December 14, 2004            | \$ 8.67                        | 8.6%   | 10.5%                                |
| December 10, 2004            | \$ 8.66                        | 8.7%   | 10.6%                                |
| November 11, 2004            | \$ 8.48                        | 11.0%  | 13.0%                                |



|                         |    |      |        |        |
|-------------------------|----|------|--------|--------|
| High Since June 2, 2004 | \$ | 9.78 | (3.7)% | (2.0)% |
| Low Since June 2, 2004  | \$ | 6.00 | 56.9%  | 59.7%  |

(1) Based upon 0.2155x exchange ratio and current LMI share price of \$43.69 as of January 14, 2005

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any particular analysis or factor considered by it. The summary provided and the analyses described above must be considered as a whole, and selecting any portion of Morgan Stanley's analyses, without considering all analyses, would create an incomplete view of the process underlying Morgan Stanley's opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of UGC or LMI.

In performing its analysis, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of UGC and LMI. Any estimates contained in the analyses performed by Morgan Stanley are not necessarily indicative of actual values, which

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may be significantly more or less favorable than suggested by such estimates. The analyses performed were prepared solely as a part of Morgan Stanley's analysis of the fairness from a financial point of view of the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement and were conducted in connection with the delivery by Morgan Stanley of its opinion, dated January 17, 2005, to the Special Committee. Morgan Stanley's analyses do not purport to be appraisals or to reflect the prices at which shares of UGC common stock or LMI common stock might actually trade.

The consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was determined through negotiations between the Special Committee and LMI, was approved by the Special Committee and recommended by the Special Committee for the approval of UGC's board of directors and was approved by UGC's board of directors. Morgan Stanley's opinion to the Special Committee was one of many factors taken into consideration by the Special Committee in making its determination to approve the merger.

Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley, as part of its investment banking and financial advisory business, is continuously engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for UGC and have received fees for the rendering of these services. Morgan Stanley received fees of approximately \$1 million during the past two years in connection with such services and expects to be paid a fee of approximately \$1.5 million for services being provided to UGC other than in connection with this transaction. In the ordinary course of its business, Morgan Stanley and its affiliates may from time to time trade in the securities or the indebtedness of UGC and LMI and its affiliates for its own account, the accounts of investment funds and other clients under the management of Morgan Stanley and for the accounts of its customers and accordingly, may at any time hold a long or short position in such securities or indebtedness for any such account.

Pursuant to an engagement letter dated December 22, 2004, UGC agreed to pay Morgan Stanley a financial advisory fee of \$1 million. In addition, UGC agreed to pay Morgan Stanley a transaction fee of \$4.5 million upon delivery of its opinion. UGC also agreed to reimburse Morgan Stanley for its expenses incurred in performing its services and to indemnify Morgan Stanley and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under federal securities laws, related to or arising out of Morgan Stanley's engagement and any related transactions.

### **Fairness Determinations of the Boards of Directors of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub**

The UGC merger is considered a 13e-3 transaction for purposes of Rule 13e-3 under the Exchange Act because each of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub is an affiliate of UGC and public stockholders of UGC are entitled to receive consideration in the UGC merger other than Liberty Global common stock. As a result, under Rule 13e-3, LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub are each required to consider the substantive and procedural fairness of the UGC merger to the unaffiliated stockholders of UGC.

#### ***Fairness Determination of the LMI Board***

The LMI board of directors determined that the transactions contemplated by the merger agreement, including the UGC merger, are, substantively and procedurally, fair to the unaffiliated stockholders of UGC. In making this determination, the LMI board considered various factors, including:

that the merger was negotiated with the Special Committee, which was advised by its own counsel and financial advisors;

that the merger is structured so that it is a condition to the completion of the merger that it be approved by at least a majority of the outstanding shares of UGC common stock not beneficially owned by LMI or Liberty or the directors and executive officers of LMI, Liberty and UGC;

that the 0.2155 to 1.0 exchange ratio represents an 8.6% premium over the closing sale price for the shares of UGC Class A common stock on December 14, 2004, the last trading day before Mr. Malone's first conversation with the Special Committee, and a slight premium over the closing sale price of those shares on January 11, 2005, the last trading day before LMI management and the Special Committee reached an agreement in principle on the financial terms of the UGC merger. The LMI board also considered that from the time of the LMI spin off in June 2004 through the last trading day before the public announcement of the mergers, the

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historical ratio in which the shares of UGC Class A common stock has traded relative to the LMI Series A common stock has predominantly been below the 0.2155 exchange ratio;

its belief that since LMI's spin off from Liberty in June 2004, UGC's historical trading price has included an acquisition premium attributable to market speculation that LMI would buy out the public minority stockholders of UGC;

its belief that LMI common stock trades with a holding company discount of between 9% and 19%, implying a larger premium to the unaffiliated stockholders of UGC on a fair value-to-fair value basis;

that the unaffiliated stockholders of UGC who elect to receive Liberty Global stock will have the opportunity to participate in LMI's Japanese cable distribution and programming businesses, as well as continue to participate in the potential growth of the businesses of UGC;

that LMI was foregoing its ability to obtain a control premium for its investment in UGC, while the unaffiliated stockholders of UGC who become stockholders of Liberty Global would participate as stockholders of the new company in any control premium because there will be no single controlling stockholder of the new company;

that LMI has sufficient voting power to determine a disposition of UGC, and informed the Special Committee that it would not be interested in a sale of UGC to a third party; and

the fact that the Special Committee received an opinion from Morgan Stanley to the effect that, as of the date of such opinion and based upon and subject to the assumptions, qualifications and limitations set forth in the opinion, the consideration to be received by the unaffiliated stockholders of UGC pursuant to the merger agreement was fair from a financial point of view to such stockholders. LMI management recognized that Morgan Stanley's opinion is directed solely to the Special Committee, and that LMI is not entitled to rely on that opinion.

In addition to the foregoing positive factors which the LMI board considered in making its fairness determination, the LMI board also evaluated the following negative factors, which it viewed as insufficient to outweigh the positive factors:

that on January 14, 2005, the last trading day prior to the LMI board meeting approving the merger agreement, the UGC Class A common stock was trading above the 0.2155 exchange ratio; and

that the holders of UGC Class A common stock are not entitled to appraisal rights under Delaware law, and that no provision is included in the merger agreement to provide them that right.

The LMI board further considered the prices at which each of LMI and, before its spin off from Liberty in June 2004, Liberty had purchased shares of UGC over the preceding two year period, including the range of prices paid in such purchases. With the exception of Liberty's acquisition of all of the UGC Class B common stock of the founders of UGC in January 2004, all UGC stock purchases during that two-year period were made at prices between \$3.62 and \$8.59 per share, which is below the \$9.58 cash consideration being offered to the unaffiliated stockholders of UGC in the cash election and the \$9.42 implied value of the exchange ratio being made available in the stock election, as of January 14, 2005, the last trading day prior to the LMI board meeting approving the merger agreement. Those purchases had all involved shares of UGC Class A common stock purchased pursuant to the exercise of contractual preemptive rights or pursuant to subscription rights that had been made available to all UGC stockholders. In the case of Liberty's acquisition of the shares of UGC Class B common stock from the UGC founders, the average per share price paid for those shares was \$19.93. The LMI board did not view the amount paid for the shares of UGC Class B common stock acquired from the UGC founders as relevant to its determination of the fairness of the consideration being paid to the unaffiliated stockholders of UGC in the UGC merger. That transaction involved a control premium due to the removal at that time of substantial constraints on the ability of Liberty to exercise control over UGC. By

contrast, the stock consideration and cash consideration being made available to the unaffiliated stockholders of UGC does not include a control premium as LMI already has a 53.6% equity interest and an approximate 91% voting interest in UGC.

LMI's purpose for engaging in the mergers is to acquire, through Liberty Global, all of the outstanding shares of UGC capital stock that LMI does not already own. The LMI board did not consider other alternatives to achieving its goal of acquiring the minority interest in UGC. The LMI board considered the alternative of maintaining the status quo in which LMI was the controlling stockholder of UGC and instituting a stock repurchase program for LMI stock. On balance, the LMI board determined that the proposed mergers would be preferable to maintaining the status quo. Consummating the mergers was viewed as preferable as it would eliminate or significantly reduce the holding company discount at which LMI believes its stock has traded since its spin off from Liberty in June 2004, as well as eliminate

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any potential competition between LMI and UGC, including in the pursuit of acquisition opportunities and capital raising activities.

The LMI board did not consider UGC's net book value (assets minus liabilities as reflected in UGC's financial statements for accounting purposes) in its evaluation of fairness to the unaffiliated stockholders of UGC, as net book value is impacted by accounting treatment of transactions and is thus not comparable across firms or periods, nor does that metric take into account the earnings power or future cash flow potential of UGC. In any event, UGC's net book value was substantially less than the value of the merger consideration. The LMI board did not consider the liquidation value of UGC because liquidation was not an acceptable option to LMI, as the controlling stockholder of UGC. Because liquidation would involve selling UGC's assets and businesses for cash, liquidation value would most likely yield a lower valuation for UGC due to the significant tax liability such a sale would entail. Although a sale of UGC to a third party was also not considered by the LMI board to be an acceptable option, the LMI board considered the going concern value of UGC to the extent that it was encompassed in the comparable company analysis and discounted cash flow analysis of UGC performed by Banc of America Securities as part of its relative valuation analyses of LMI in relation to UGC. Those analyses, which were adopted by the LMI board for this purpose, were performed by Banc of America Securities for the purpose of valuing UGC's contribution to the sum-of-the parts value of LMI and are described under *Opinion of LMI's Financial Advisor*. Banc of America Securities was not requested to and did not consider the fairness of the UGC merger to the unaffiliated stockholders of UGC. However, given the purpose for which the comparable company analysis and discounted cash flow analysis were made, the LMI board deemed it appropriate to consider them in making its determination regarding the fairness of the UGC merger to the unaffiliated stockholders of UGC. Because UGC's unaffiliated stockholders are being given the opportunity to continue to participate in the growth of UGC's business and the other businesses of Liberty Global through the stock election and in the belief that the mergers will eliminate or significantly reduce the holding company discount at which LMI's stock trades thereby increasing the value of the Liberty Global common stock to be received by the unaffiliated stockholders of UGC in the mergers, the LMI board believes that the going concern value of UGC supports the determination of LMI's board that the UGC merger is fair to the unaffiliated stockholders of UGC. The LMI board did not find it practicable to, and therefore did not, quantify or otherwise assign relative weights to the individual factors considered in making its fairness determination. Rather, its fairness determination was made after consideration of all of the foregoing factors as a whole.

***Fairness Determinations of the Boards of Liberty Global, LMI Merger Sub and UGC Merger Sub***

Adopting the analysis of the board of directors of LMI, the boards of directors of each of Liberty Global, LMI Merger Sub and UGC Merger Sub unanimously determined that the transactions contemplated by the merger agreement, including the UGC merger, are, substantively and procedurally, fair to the unaffiliated stockholders of UGC. Each of these boards of directors is comprised of two persons, John C. Malone and Robert R. Bennett, who serve on the board of directors of LMI and were present for and participated in the adopted analysis of the LMI board.

Liberty Global is a new company created by LMI, its sole stockholder, for the purpose of becoming the new parent company of LMI and UGC if the mergers are completed. Liberty Global's purpose in engaging in the mergers is the facilitation of the combination of LMI and UGC. As Liberty Global was created for the foregoing purpose, no alternatives to the mergers were considered by Liberty Global.

Each of LMI Merger Sub and UGC Merger Sub is a new company created by Liberty Global, its sole stockholder, to facilitate the mergers. The sole purpose of each of LMI Merger Sub and UGC Merger Sub in engaging in the mergers is the facilitation of the combination of LMI and UGC. As they were created for the foregoing purpose, no alternatives to the mergers were considered by LMI Merger Sub or UGC Merger Sub.

**Recommendation of and Reasons for the LMI Merger**

LMI's board of directors unanimously approved the merger agreement and determined that the merger agreement and the transactions contemplated thereby, including the LMI merger, are advisable, fair to, and in the best interests of, LMI and its stockholders. Accordingly the LMI board recommends that the LMI stockholders vote **FOR** the merger proposal at the LMI annual meeting. In determining that the merger agreement and the LMI merger are in the best interests of LMI and its stockholders, the LMI board considered that the mergers would eliminate the current dual

public holding company structure in which LMI's principal consolidated asset is its interest in another public company, UGC. The LMI board determined that the principal benefit to LMI stockholders from the combination of the two companies under a single public company, Liberty Global, was the elimination or reduction of the holding

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company discount in LMI's stock price. The LMI board also considered the following matters in reaching its determination:

the presentation by its financial advisor, Banc of America Securities, and Banc of America Securities' oral opinion, subsequently confirmed in writing, that as of the date of such opinion and based upon and subject to the factors, limitations and assumptions set forth in Banc of America Securities' written opinion, the consideration to be received by LMI stockholders (other than affiliates of LMI) in the transactions contemplated by the merger agreement was fair from a financial point of view to such stockholders. In evaluating the presentation and opinion of Banc of America Securities, the LMI board was aware of the compensation arrangements with Banc of America Securities, including that a substantial portion of its fee was contingent upon completion of the mergers;

the integration of the management teams of the two companies, with Mr. Malone serving as Chairman of the Board of Liberty Global and Mr. Fries as Chief Executive Officer. The LMI board believed that the strengths of the respective management teams at the corporate level of the two companies would complement each other, and that there was little if any overlap at the operating level that would impede a smooth integration of the two companies;

that the consummation of the mergers would eliminate any potential competition between LMI and UGC, including in the pursuit of acquisition opportunities and capital raising activities;

that the receipt of the merger consideration in the LMI merger would be tax-free to the LMI stockholders;

the background of the negotiations between Mr. Malone and the Special Committee that resulted in the agreed exchange ratio and cash election alternative. Mr. Malone had advised the LMI board of his conclusion, based upon these negotiations, that the Special Committee would not approve the transaction at any lower exchange ratio. The LMI board took note of the premium that the exchange ratio represented for the shares of UGC stock, based upon the relative trading prices of the two companies prior to the initiation of discussions with the Special Committee, and the information provided by Banc of America Securities as to premiums paid in other transactions. Based upon the foregoing, the increase in the exchange ratio over the course of the negotiations did not detract from the LMI board's conclusion that the LMI merger would be in the best interests of LMI and its stockholders;

that the merger agreement included a limitation on the cash election, and that LMI had sufficient cash to fund the maximum amount of cash anticipated to be payable if the cash elections were fully exercised; and

the draft of the merger agreement and the voting agreement and the summary of the terms of each provided by LMI's counsel. In general, the terms of the merger agreement are customary for transactions of this nature and the Special Committee had insisted on the voting agreement as a condition to its approval of the merger agreement. The LMI board considered that the provision of the merger agreement requiring approval of the UGC merger by the vote of a majority of the minority stockholders of UGC was a negative factor from LMI's perspective because of the resulting uncertainty that the transaction would be consummated. Because the merger agreement also included provisions allowing LMI to terminate the merger agreement if UGC's annual report on Form 10-K was not filed by May 15, 2005 or if the mergers are not consummated by September 30, 2005, the uncertainty resulting from the inclusion of the minority approval requirement did not outweigh the other factors supporting the LMI board's conclusion that the LMI merger would be in the best interests of LMI and its stockholders.

If the mergers are completed, LMI stockholders will not have dissenters' rights of appraisal under Delaware law or the merger agreement because shares of LMI common stock are, and shares of Liberty Global common stock will be, listed on the Nasdaq National Market.

**Opinion of LMI's Financial Advisor**



On January 10, 2005, the board of directors of LMI retained Banc of America Securities LLC to act as its financial advisor in connection with the possible acquisition of the minority interest of UGC. Banc of America Securities is a nationally recognized investment banking firm. Banc of America Securities is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions and has negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. LMI selected Banc of America Securities to act as its financial advisor on the basis of Banc of America Securities' experience and expertise in transactions similar to the mergers, and its reputation in the media industry and investment community and its historical investment banking relationship with LMI and its affiliates.

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On January 17, 2005, Banc of America Securities delivered its oral opinion, subsequently confirmed in writing, to the LMI board of directors that as of the date of the opinion the consideration to be received by the holders of LMI's common stock, other than any affiliates of LMI, pursuant to the merger agreement is fair from a financial point of view to the holders of LMI's common stock, other than any affiliates of LMI. The amount of the consideration was determined by negotiations between LMI and the Special Committee and was not based upon recommendations from Banc of America Securities. LMI's board of directors did not limit the investigations made or procedures followed by Banc of America Securities in rendering its opinion.

**We have attached the full text of Banc of America Securities' written opinion to the LMI board of directors as Appendix E. You should read this opinion carefully and in its entirety in connection with this joint proxy statement/ prospectus. The following summary of Banc of America Securities' opinion is qualified in its entirety by reference to the full text of the opinion. Banc of America Securities has consented to the inclusion of its opinion and the summary of its opinion in this joint proxy statement/ prospectus. By rendering its opinion and giving such consent Banc of America Securities has not admitted that it is an expert with respect to any part of this joint proxy statement/ prospectus within the meaning of the term "expert" as used in, or that Banc of America Securities comes within the category of persons whose consent is required under, the Securities Act or the rules and regulations of the Securities and Exchange Commission promulgated thereunder.**

**Banc of America Securities' opinion is directed to the LMI board of directors. It does not constitute a recommendation to any stockholder of LMI or UGC on how to vote with respect to the mergers. The opinion addresses only the financial fairness of the consideration to be received by the holders of LMI's common stock, other than any affiliates of LMI, pursuant to the merger agreement. The opinion does not address the relative merits of the mergers or any alternatives to the mergers, the underlying decision of the LMI board of directors to proceed with or effect the mergers or any other aspect of the transactions contemplated by the merger agreement. In furnishing its opinion, Banc of America Securities did not admit that it is an expert within the meaning of the term "expert" as used in the Securities Act, nor did it admit that its opinion constitutes a report or valuation within the meaning of the Securities Act. Statements to that effect are included in the Banc of America Securities' opinion.**

For purposes of rendering its opinion Banc of America Securities has:

reviewed certain publicly available financial statements and other business and financial information of LMI and UGC;

reviewed certain internal financial statements and other financial and operating data concerning LMI and UGC;

analyzed certain financial forecasts to which Banc of America Securities was directed by the management of LMI;

reviewed and discussed with senior executives of LMI information relating to certain benefits anticipated from the mergers;

discussed the past and current operations, financial condition and prospects of LMI with senior executives of LMI and discussed the past and current operations, financial condition and prospects of UGC with senior executives of UGC;

reviewed the reported prices and trading activity for the LMI common stock and the UGC common stock;

compared the financial performance of UGC and the prices and trading activity of the UGC common stock with that of certain other publicly traded companies that Banc of America Securities deemed relevant;

compared the financial terms of the mergers to the financial terms, to the extent publicly available, of certain other business combination transactions that Banc of America Securities deemed relevant;

participated in discussions and negotiations among representatives of LMI and UGC and their financial and legal advisors;

reviewed the January 16, 2005 draft merger agreement and certain related documents; and

performed such other analyses and considered other factors as Banc of America Securities deemed appropriate. Banc of America Securities reviewed the January 16, 2005 draft merger agreement in its preparation of its opinion. While LMI and UGC had the opportunity to agree to materially add, delete or alter material terms of the merger agreement before its execution, the final merger agreement was substantially similar to the January 16, 2005 draft merger agreement.

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Banc of America Securities did not assume any responsibility to independently verify the information listed above. Instead, with the consent of the LMI board of directors, Banc of America Securities relied on the information as being accurate and complete in all material respects. Banc of America Securities also made the following assumptions with the consent of the LMI board of directors:

with respect to financial forecasts for LMI and UGC, Banc of America Securities was directed by the management of LMI to rely on certain publicly available financial forecasts in performing its analyses and has assumed that, in the good faith belief of the management of LMI, such forecasts reflect the best currently available estimates of the future financial performance of LMI and UGC;

that the LMI merger will qualify as a reorganization within the meaning of Section 368(a) of the Code and the regulations promulgated thereunder, and that the conversion of the UGC common stock into shares of Liberty Global Series A common stock pursuant to the merger agreement, will qualify as an exchange within the meaning of Section 351(a) of the Code and the regulations promulgated thereunder;

that the final executed merger agreement will not differ in any material respect from the January 16, 2005 draft merger agreement reviewed by Banc of America Securities, and that the mergers will be consummated as provided in the January 16, 2005 draft merger agreement, with full satisfaction of all covenants and conditions set forth in it and without any waivers thereof;

that all material governmental, regulatory or other consents and approvals necessary for the consummation of the mergers will be obtained without any adverse effect on LMI or UGC or the contemplated benefits of the mergers; and

that the terms of the merger agreement and the mergers are the most beneficial terms from LMI's perspective that could under the circumstances be negotiated among the parties to the merger agreement and the mergers.

In addition, for purposes of its opinion, Banc of America Securities has:

relied on advice of counsel to LMI as to all legal matters with respect to LMI, the mergers and the January 16, 2005 draft merger agreement; and

not assumed responsibility for making an independent evaluation, appraisal or physical inspection of any of the assets or liabilities, contingent or otherwise, of LMI or UGC, nor did Banc of America Securities receive any appraisals with respect thereto.

Banc of America Securities' opinion was based upon economic, monetary and market and other conditions in effect on, and the information made available to it as of, the date of the opinion. Accordingly, although subsequent developments may affect its opinion, Banc of America Securities did not assume any obligation to update, revise or reaffirm its opinion.

The following represents a brief summary of the material financial analyses performed by Banc of America Securities in connection with providing its opinion to the LMI board of directors. Some of the summaries of financial analyses performed by Banc of America Securities include information presented in tabular format. In order to fully understand the financial analyses performed by Banc of America Securities, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Banc of America Securities.

*LMI and UGC Valuation Analyses*

***Valuation Approach***

Banc of America Securities conducted valuation analyses of both LMI and UGC to evaluate the respective exchange ratios of shares of LMI and UGC, which were designed to yield a range of exchange ratios for evaluating the fairness

of the exchange ratio in the mergers. The exchange ratio ranges that resulted from the analyses conducted by Banc of America Securities were presented to the LMI board of directors in two forms, with one range of ratios reflecting the consideration to be received by UGC stockholders in Liberty Global shares and/or cash for each UGC share, and with the other range of ratios reflecting the consideration to be received by LMI stockholders in Liberty Global shares, expressed as the number of Liberty Global shares to be received for each LMI share.

These two ranges of exchange ratios are different ways of expressing the economic exchange involved in the creation of Liberty Global and the consummation of the mergers. For example, an exchange ratio expressed in terms of the

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number of shares of Liberty Global stock to be received by a holder of a share of stock of either UGC or LMI, respectively, can be converted into an exchange ratio expressed in terms of the number of shares of Liberty Global stock to be received by a holder of a share of the other by applying an implied exchange ratio and the number of outstanding shares of the companies immediately prior to the exchange. For the purposes of Banc of America Securities analysis, the implied exchange ratios used were the exchange ratios derived from closing stock prices on January 14, 2005 and the outstanding shares used were 807.1 million for UGC and 173.7 million for LMI, respectively.

**Valuation Methodologies**

*Exchange Ratio Analysis.* Banc of America Securities reviewed the historical ratio of the closing price per share of LMI common stock and that of UGC common stock for several time periods since June 2, 2004 (the day on which LMI common stock began trading on a when-issued basis prior to LMI's spin off from Liberty). During this period, the historical exchange ratio calculated on a daily basis ranged from a low of 0.1853 on July 20, 2004 to a high of 0.2239 on September 30, 2004.

The weighted average exchange ratios for selected time periods since June 2, 2004 were:

| <b>Period Prior to January 14, 2005</b>   | <b>Weighted<br/>Average<br/>Exchange Ratio</b> |
|---|--|
| 1 Week  | 0.2168   |
| 1 Month   | 0.2087   |
| 2 Months  | 0.2034   |
| 3 Months  | 0.2060   |
| Since LMI common stock began trading on a when-issued basis prior to LMI's spin off from Liberty (June 2, 2004) | 0.2054   |

*Premiums Paid Analysis.* Banc of America Securities reviewed the consideration paid in 19 merger and acquisition transactions announced after March 31, 1995 and involving U.S. companies in which the aggregate values paid exceeded \$500 million and in which the acquirer owned more than 50% of the target prior to the acquisition. Banc of America Securities calculated the premiums paid relative to the stock prices of the acquired companies in all cash or cash and stock deals and premiums paid relative to the exchange ratio for all stock deals one day, one week and one month prior to the announcement of the acquisition offer.

The Premiums Paid Analysis indicated the following median and mean premiums for these transactions, excluding pending transactions:

|                     | <b>Premium One<br/>Day<br/>Before<br/>Announcement</b> | <b>Premium One<br/>Week<br/>Before<br/>Announcement</b> | <b>Premium One<br/>Month<br/>Before<br/>Announcement</b> |
|---------------------|--|---|--|
| High (All Deals)    | 46.4%  | 42.7%   | 73.4%  |
| Low (All Deals)     | (12.0)%  | (21.4)%   | (17.9)%  |
| Median (All Deals)  | 19.8%  | 19.8%   | 22.2%  |
| Mean (All Deals)    | 19.2%  | 19.5%   | 26.1%  |
| High (Stock Only)   | 29.2%  | 37.0%   | 73.4%  |
| Low (Stock Only)    | (12.0)%  | (21.4)%   | (17.9)%  |
| Median (Stock Only) | 19.2%  | 13.5%   | 14.6%  |
| Mean (Stock Only)   | 15.7%  | 13.0%   | 23.1%  |

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Based upon this analysis, Banc of America Securities established an exchange ratio premium range of 10% - 25% to the one day and one month prior exchange ratios. This exchange ratio premium range was selected because it encompassed substantively all the means and medians yielded by the Premiums Paid Analysis.

The table below sets forth the exchange ratios derived from applying the premium range to the exchange ratios derived from the closing stock prices of LMI and UGC on January 14, 2005.

|                             | <b>Consideration to be<br/>Received by<br/>UGC Stockholders</b> | <b>Consideration to be<br/>Received by<br/>LMI Stockholders</b> |
|-----------------------------|---|---|
| 10% Premium (1 Day Prior)   | 0.2427  | 0.8879  |
| 25% Premium (1 Day Prior)   | 0.2758  | 0.7813  |
| 10% Premium (1 Month Prior) | 0.2105  | 1.0236  |
| 25% Premium (1 Month Prior) | 0.2392  | 0.9008  |

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Banc of America Securities noted that the per-share value of the stock consideration to be received by UGC stockholders pursuant to the merger agreement based upon LMI's closing stock price on January 14, 2005 implied a discount of 2.3% over UGC's closing stock price on January 14, 2005. The premium implied over UGC's closing stock price one week prior to January 14, 2005 was 2.5% and the implied premium over the price one month prior to that date was 8.6%.

*Holding Company Discount Analysis.* Banc of America Securities performed a sum-of-the-parts valuation of LMI to determine the net asset value of LMI, in part in order to derive the appropriate range of holding company discounts implicit in LMI's market price. A holding company discount is the discount at which a stock trades relative to its net asset value per share. Such discount is calculated by dividing a company's net asset value by its fully-diluted shares outstanding and comparing that per-share net asset value to the company's stock price to determine whether the net asset value per share represents a discount or premium to the stock's trading price. Holding company discounts are so named because it is believed that companies with partial ownership in diverse assets do not receive full credit from the capital markets for the value of their holdings in these respective businesses. In the case of LMI, Wall Street analysts sometimes refer to the holding company discount as an explanation for why the company's stock trades below its net asset value. Some analysts include both sum-of-the-parts (net asset) and public market/other valuations in their research specifically to understand the degree to which LMI is impacted by such holding company discount. In order to derive LMI's sum-of-the-parts value, LMI's ownership in UGC was taken at market value and the values of the other assets of LMI were calculated using publicly available information and management estimates. Banc of America Securities' sum-of-the-parts equity value for LMI ranged from approximately \$8.8 billion to \$9.1 billion, or \$50.45 to \$52.62 per share, implying a current holding company discount of approximately 13% to 17%. In calculating the sum-of-the-parts (net asset) value of LMI, Banc of America Securities noted that the substantial majority of LMI's value comprised cash and equivalents, its stake in UGC's equity, and its stake in J-COM, which was in the process of registering its initial public offering as described elsewhere in this proxy statement/prospectus. In addition, Banc of America Securities reviewed several Wall Street analysts' reports, published over a three week period beginning in mid-November 2004, each of which provided (i) an estimated net asset value per share for LMI, and (ii) in all but one case, a target share price for LMI and the discount represented by the target share price relative to such net asset value per share. These reports were used by Banc of America Securities to derive a range of discounts or premiums at which Wall Street analysts estimate LMI's shares trade relative to its net asset value per share as well as a range of discounts to net asset value per share represented by those analysts' published target prices. The specific reports were selected because they were deemed to be sufficiently recent to be relevant and because they provided estimates of LMI's net asset value per share, which could be used to calculate an implied premium or discount to LMI's stock price (which we refer to as the holding company discount) as of the report date. Other available research was excluded from this analysis because it did not provide an estimated net asset value per share and could not, therefore, be used to quantify a holding company discount. The estimated net asset value per share included in the reports included a high of \$56.81 and a low of \$41.89, yielding a median estimated net asset value of \$49.22. The holding company discount analysis yielded the following information regarding LMI's estimated holding company discount:

|        | <b>Target</b> | <b>Net Asset</b> | <b>Premium</b>         |
|--------|---------------|------------------|------------------------|
|        | <b>Price</b>  | <b>Value /</b>   | <b>(Discount) of</b>   |
|        |               | <b>Share</b>     | <b>Target Price</b>    |
|        |               |                  | <b>to Net Asset</b>    |
|        |               |                  | <b>Value per Share</b> |
| Median | \$ 49.00      | \$ 54.10         | (9)%                   |
| Low    | \$ 51.00      | \$ 56.81         | (10)%                  |
| High   | \$ 41.00      | \$ 41.89         | (2)%                   |



|        | <b>Market Price</b> | <b>Net Asset Value / Share</b> | <b>Premium (Discount) of Market Price to Net Asset Value per Share</b> |
|--------|---------------------|--------------------------------|--|
| Median | \$ 43.53            | \$ 49.22                       | (14)%  |
| Low    | \$ 43.37            | \$ 56.81                       | (24)%  |
| High   | \$ 43.68            | \$ 41.89                       | 4%   |

The report that did not assign a target price for LMI stock was not included in the calculation of premium or discount of target price to net asset value above.

Banc of America Securities used the results of these analyses to determine what discount, if any, should be applied to the net asset valuations calculated in the relative valuation analysis of LMI and UGC (described below). Based upon the results of the holding company discount analysis, Banc of America Securities applied a holding company discount range of 0% to 20% to LMI's sum-of-the-parts value in the relative valuation analysis.

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*Relative Valuation Analysis.* Banc of America Securities compared the value of UGC, based upon three customary valuation methodologies, to the sum-of-the-parts (or net asset) value of LMI, including the value of LMI's holdings in UGC based upon the same three valuation methodologies. The three methodologies used to calculate the value of UGC are:

- (A) Public Market Valuation, in which the value of UGC was based upon UGC's fully diluted shares outstanding multiplied by their market price on January 14, 2005
- (B) Comparable Company Analysis, in which the value of UGC was calculated as its estimated 2005 cable EBITDA multiplied by the median Aggregate Value / estimated 2005 cable EBITDA multiples of its peers

(C) Discounted Cash Flow Analysis, in which the value of UGC was calculated as the present value of its projected unlevered free cash flows for the period 2005 through 2009, plus a range of Terminal Values. Each of these valuation methodologies produced a value for UGC that was then included in a sum-of-the-parts valuation analysis of LMI. LMI's sum-of-the-parts valuation also included the values of LMI's assets other than UGC, which were calculated using publicly available information and management estimates. The sum-of-the-parts valuation of LMI provided a range of stock prices for LMI that varied according to the methodology used and the value implied by such methodology for UGC. Once this range of stock prices for LMI was established, Banc of America Securities applied a holding company discount of 0% to 20% based upon the holding company analysis described above.

Banc of America Securities then compared the value of UGC derived from each methodology to the corresponding sum-of-the-parts value of LMI, as adjusted by the holding company discount, in order to calculate a range of exchange ratios.

The three methodologies that Banc of America Securities used to value UGC for the purposes of the sum-of-the-parts valuation of LMI are described in greater detail below.

*A. Public Market Valuation.* Banc of America Securities established a valuation for UGC based upon the closing market price of UGC's stock on January 14, 2005 and the fully diluted shares outstanding of UGC. This value for UGC was then used to establish the value of LMI's stake in UGC for purposes of calculating the sum-of-the-parts (or net asset) valuation of LMI. Banc of America Securities then compared this value of UGC to the corresponding sum-of-the-parts valuation of LMI, adjusted by the holding company discount of 0% to 20%, to determine a range of exchange ratios for the transaction as set forth below.

|                              | <b>Consideration to be<br/>Received by<br/>UGC Stockholders</b> | <b>Consideration to be<br/>Received by<br/>LMI Stockholders</b> |
|------------------------------|---|---|
| 20% Holding Company Discount | 0.2357  | 0.9143  |
| 0% Holding Company Discount  | 0.1886  | 1.1429  |

Banc of America Securities noted that, based upon a public market valuation for UGC, LMI's sum-of-the-parts (or net asset) value implied a holding company discount of approximately 15% as of January 14, 2005.

*B. Comparable Company Analysis.* Banc of America Securities established a valuation for UGC based upon a median multiple of aggregate value to estimated forward cable earnings before interest, taxes, depreciation and amortization (which we refer to as Cable EBITDA) for 2005 for five companies in the U.S. cable industry that Banc of America Securities deemed to be comparable to UGC.

Banc of America Securities defined aggregate value to mean:

equity value, defined as the product of the number of shares of common stock outstanding for a company multiplied by its stock price as of January 14, 2005; plus

outstanding funded debt; less

cash, cash equivalents and non-cable unconsolidated assets.

The following table sets forth multiples indicated by this analysis for these five companies:

| <b>Aggregate Value to:</b> | <b>Range of Multiples</b> | <b>Median</b> |
|----------------------------|---------------------------|---------------|
| 2005E Cable EBITDA         | 7.9x to 10.0x             | 8.9x          |

The comparable company analysis compared UGC to five U.S. cable companies. These companies were selected because they were all U.S. publicly traded companies and, given their scale, the scope of services provided by them and the quality of their respective businesses, Banc of America Securities considered them to be most relevant to UGC for purposes of its analysis. Banc of America Securities noted that the two largest publicly traded UK cable companies,

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NTL and Telewest, trade at a median multiple of 6.1x 2005 estimated Cable EBITDA. Banc of America Securities, however, did not view these two companies as being comparable to UGC for purposes of this analysis. Banc of America Securities did not include every company that could be deemed to be a participant in the same industry. Based upon the median of US cable company trading multiples, which Banc of America Securities deemed to be the most relevant for purposes of the analysis, the comparable companies valuation of UGC yielded a value for UGC which was then used to establish the value of LMI's stake in UGC for purposes of the sum-of-the-parts (or net asset) valuation of LMI. Banc of America Securities then compared this value of UGC to the corresponding sum-of-the-parts valuation of LMI, adjusted by the holding company discount of 0% to 20%, to determine a range of exchange ratios for the transaction as set forth below.

|                              | <b>Consideration to be<br/>Received by<br/>UGC Stockholders</b> | <b>Consideration to be<br/>Received by<br/>LMI Stockholders</b> |
|------------------------------|---|---|
| 20% Holding Company Discount | 0.2262  | 0.9529  |
| 0% Holding Company Discount  | 0.1809  | 1.1911  |

Banc of America Securities noted that, based upon a comparable companies valuation for UGC, LMI's sum-of-the-parts (or net asset) value implied a holding company discount of approximately 11% as of January 14, 2005.

C. *Discounted Cash Flow Analysis.* Banc of America Securities established a valuation for UGC based upon the estimated present value of its projected unlevered free cash flows. For purposes of estimating such future cash flows, Banc of America Securities used certain publicly available financial cash flow forecasts for UGC for 5 years (2005 through 2009). Banc of America Securities was directed to this publicly available information by the management of UGC. In conducting this analysis, Banc of America Securities first calculated the present values of the forecasted cash flows. Banc of America Securities then estimated the terminal value of UGC at the end of 2009 by applying multiples to UGC's estimated 2009 EBITDA. These multiples ranged from 8.0x to 10.0x. Banc of America Securities then discounted the cash flows and terminal values to present values using discount rates ranging from 8% to 12%. Banc of America Securities selected the range of discount rates to reflect a realistic range of the weighted average cost of capital for companies in UGC's industry and with capitalization profiles not dissimilar from UGC's. This analysis indicated a range of aggregate value for UGC, expressed as multiples of estimated 2005E Cable EBITDA, as summarized in the table below:

**Multiple of Aggregate Value to 2005E Cable EBITDA**

| <b>Discount<br/>Rate</b> | <b>Terminal Multiple<br/>of 8.0x<br/>Projected<br/>Calendar Year<br/>2009 EBITDA</b> | <b>Terminal Multiple<br/>of 9.0x<br/>Projected<br/>Calendar Year<br/>2009 EBITDA</b> | <b>Terminal Multiple<br/>of 10.0x<br/>Projected Calendar<br/>Year<br/>2009 EBITDA</b> |
|--------------------------|--|--|---|
| 8.0%                     | 9.8x   | 10.8x  | 11.7x   |
| 10.0%                    | 9.1x   | 9.9x   | 10.7x   |
| 12.0%                    | 8.4x   | 9.1x   | 9.9x  |

The midpoint value implied for UGC (using a terminal multiple of 9.0x and a discount rate of 10%) was then used to establish the value of LMI's stake in UGC for purposes of calculating the sum-of-the-parts (or net asset) valuation of LMI. Banc of America Securities then compared this value of UGC to the corresponding sum-of-the-parts valuation of

LMI, adjusted by the holding company discount of 0% to 20%, to determine a range of exchange ratios for the transaction as set forth below:

|                              | <b>Consideration to be<br/>Received by<br/>UGC Stockholders</b> | <b>Consideration to be<br/>Received by<br/>LMI Stockholders</b> |
|------------------------------|---|---|
| 20% Holding Company Discount | 0.2447  | 0.8807  |
| 0% Holding Company Discount  | 0.1957  | 1.1009  |

Banc of America Securities noted that, based upon the discounted cash flow valuation of UGC, LMI's sum-of-the-parts (or net asset) value implied a holding company discount of approximately 17% as of January 14, 2005.

As noted above, the discussion above is merely a summary of the analyses and examinations that Banc of America Securities considered to be material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Banc of America Securities. The preparation of a fairness opinion is not susceptible to partial analysis or summary description. Banc of America Securities believes that its analyses and the summary above must be considered as a whole. Banc of America Securities further believes that selecting portions of its analyses and the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to the LMI board of directors. Banc of America Securities did not assign any specific weight to any of the analyses described above. The fact that any specific analysis

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has been referred to in the summary above is not meant to indicate that that analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described above should not be taken to be Banc of America Securities' view of the actual value of LMI.

In performing its analyses, Banc of America Securities made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of LMI and UGC. The analyses performed by Banc of America Securities are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses.

These analyses were prepared solely as part of Banc of America Securities' analysis of the financial fairness of the consideration to be received by the holders of LMI's common stock, other than any affiliates of LMI, pursuant to the merger agreement and were provided to the LMI board of directors in connection with the delivery of Banc of America Securities' opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future.

As described above, Banc of America Securities' opinion and presentation to the LMI board of directors were among the many factors taken into consideration by the LMI board of directors in making its determination to approve, and to recommend that LMI's stockholders approve, the merger agreement.

Pursuant to the engagement letter between LMI and Banc of America Securities, LMI has paid Banc of America Securities a fee of \$500,000 upon execution of the engagement letter and an additional \$500,000 upon rendering of Banc of America Securities' opinion described above and agreed to an additional fee of \$4,000,000, payable upon the consummation of the mergers. LMI has separately engaged Banc of America Securities to act as LMI's financial advisor in connection with a separate assignment, for which it has agreed to pay Banc of America Securities \$200,000 per quarter until December 31, 2005, and an additional \$500,000 upon delivery of a formal presentation to LMI. Each engagement letter calls for LMI to reimburse Banc of America Securities for its reasonable out-of-pocket expenses, and LMI has agreed to indemnify Banc of America Securities, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against particular liabilities, including liabilities under the federal securities laws. During the past two years, Banc of America Securities and its affiliates have also received significant revenue associated with banking and investment banking services provided to Liberty. These services include the arrangement of derivative instruments and other financial products and the provision of advisory services. Prior to LMI's spin off from Liberty, certain of these services were provided on behalf of the businesses of LMI. Following the spin off, Banc of America Securities acted as the lead arranger for a credit facility entered into by Liberty Cablevision of Puerto Rico, Ltd., a subsidiary of LMI, for which Banc of America Securities received a customary arrangement fee. Bank of America, N.A., an affiliate of Banc of America Securities, is also a lender and the administrative agent under this credit facility. In its capacity as lender, Bank of America received a commitment fee in 2004 and continues to receive quarterly interest payments from or on behalf of Liberty Cablevision of Puerto Rico. In its capacity as administrative agent, Bank of America receives administrative fees from or on behalf of Liberty Cablevision of Puerto Rico on an ongoing basis. Also, during the past two years, Banc of America Securities and its affiliates have received revenue associated with banking and investment banking services provided to UGC. These services include the arrangement of financial products, including derivative instruments. In addition, Banc of America Securities provided advisory services to LMI and UGC in connection with the Noos acquisition, for which Banc of America Securities received customary fees from UGC. The LMI board of directors was aware of the foregoing fees and took them into account in considering Banc of America Securities' fairness opinion and in approving the merger agreement and the LMI merger.

In the ordinary course of their business, Banc of America Securities and its affiliates may actively trade the debt and equity securities or loans of LMI, UGC and their affiliates for their own account and for the accounts of customers, and accordingly, Banc of America Securities and its affiliates may at any time hold a long or short position in such securities or loans. Banc of America Securities or its affiliates have also performed, and may in the future perform, various investment banking, lending and other financial services for LMI and UGC and their affiliates for which Banc of America Securities or its affiliates has received, and would expect to receive, customary fees.

**Availability of Opinions and Reports**

Morgan Stanley's opinion and its report to the Special Committee will be made available for inspection and copying at the principal executive offices of UGC during its regular business hours by any interested stockholder of UGC or any representative of an interested stockholder of UGC who has been designated as such in writing. Banc of America Securities' opinion and its report to the LMI board of directors will be made available for inspection and copying at the principal executive offices of LMI during its regular business hours by any interested stockholder of LMI or any representative of an interested stockholder of LMI who has been designated as such in writing.

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**Conduct of the Business of UGC if the Mergers are Not Completed**

If the mergers are not completed, UGC intends to continue to operate its business substantially in the manner it is operated today with its existing capital structure and management team remaining. From time to time, UGC will evaluate and review its business operations, properties, dividend policy and capitalization, and make such changes as are deemed appropriate, and continue to seek to identify strategic alternatives to maximize stockholder value.

**Amount and Source of Funds and Financing of the Mergers; Expenses**

Prior to the effective time of the mergers, LMI will loan to Liberty Global a sufficient amount of cash for Liberty Global to fund the cash consideration deliverable to the UGC stockholders (other than LMI and its wholly owned subsidiaries) in the UGC merger. LMI will fund this loan with its available cash. The mergers are not conditioned on the receipt of financing by LMI to pay the cash consideration deliverable to UGC stockholders.

It is expected that LMI and UGC will incur an aggregate of approximately \$22 million in expenses in connection with the mergers. These expenses will be comprised of:

approximately \$10.6 million in financial advisory fees;

approximately \$5 million of printing and mailing expenses associated with this joint proxy statement/ prospectus;

approximately \$3.2 million in legal and accounting fees;

approximately \$1.5 million in SEC filing fees; and

approximately \$1.3 million in solicitation fees and other miscellaneous expenses.

It is expected that LMI's portion of these expenses will equal approximately \$11 million and UGC's portion of these expenses will equal approximately \$11 million.

**Interests of Certain Persons in the Mergers**

***Interests of Directors and Executive Officers***

In considering the recommendation of UGC's board of directors to vote to approve the merger proposal, stockholders of UGC should be aware that members of UGC's board of directors and members of UGC's executive management have relationships, agreements or arrangements that provide them with interests in the mergers that may be in addition to or different from those of the public stockholders of UGC. Similarly, in considering the recommendation of LMI's board of directors to vote to approve the merger proposal, stockholders of LMI should be aware that members of LMI's board of directors and members of LMI's executive management have relationships, agreements or arrangements that provide them with interests in the mergers that may be in addition to or different from those of the public stockholders of LMI. In addition, the current directors of LMI and UGC will be entitled to the continuation of certain indemnification arrangements following completion of the mergers.

Following completion of the mergers, John C. Malone, Chairman of the Board, Chief Executive Officer and President of LMI, will become Chairman of the Board of Liberty Global, and Michael T. Fries, Chief Executive Officer and President of UGC, will become President and Chief Executive Officer of Liberty Global. Five of LMI's current directors, including Mr. Malone, and five of UGC's current directors, including Mr. Fries and the three members of the Special Committee, have agreed to together comprise the board of Liberty Global. The directors of Liberty Global are expected to beneficially own shares of Liberty Global common stock representing in the aggregate approximately 26.2% of the aggregate voting power of Liberty Global, based upon their beneficial ownership interests in LMI and UGC, respectively, as of March 31, 2005, and assuming no cash elections are made by the UGC stockholders. In addition, Liberty Global's management will be comprised of members of LMI's and UGC's management teams to be selected by the Liberty Global board of directors.

In anticipation of the completion of the mergers, we have amended the option award agreements of three of LMI's current directors. For information regarding these amendments, please see Management of LMI Director Compensation.



Both LMI's board of directors and UGC's board of directors were aware of these interests and arrangements and considered them when approving the mergers. For more information regarding these interests and arrangements, see

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Management of LMI, Executive Officers, Directors and Principal Stockholders of UGC and Management of Liberty Global, including:

under Management of LMI Pro Forma Security Ownership Information of LMI Management, the beneficial ownership interests in Liberty Global estimated to be held by the directors and executive officers of LMI immediately following the mergers, based upon their beneficial ownership interests in LMI and UGC, as of March 31, 2005, and assuming none of them elects any cash consideration in the UGC merger;

under Executive Officers, Directors and Principal Stockholders of UGC Pro Forma Security Ownership Information of UGC Management, the beneficial ownership interests in Liberty Global estimated to be held by the directors and executive officers of UGC immediately following the mergers, based upon their beneficial ownership interests in LMI and UGC, as of March 31, 2005, and assuming none of them elects any cash consideration in the UGC merger; and

under Executive Officers, Directors and Principal Stockholders of UGC Pro Forma Cash Consideration Deliverable to UGC Management, the aggregate amount of cash consideration that could be received by the directors and executive officers of UGC in the UGC merger, based upon their beneficial ownership interests in UGC as of March 31, 2005, and assuming (1) they exercise their cash election with respect to all of their UGC beneficial ownership interests (other than interests held pursuant to stock options) and (2) that their cash elections are not reduced pursuant to applicable proration procedures.

***Voting Intentions***

The directors and executive officers of UGC, who together beneficially own shares of UGC common stock representing less than 1% of UGC's aggregate voting power, as of March 31, 2005, have indicated to UGC that they intend to vote in favor of the approval of the merger proposal at the UGC special meeting. Also, LMI, which beneficially owns shares of UGC common stock representing approximately 91% of UGC's aggregate voting power, as of March 31, 2005, has agreed in the merger agreement to vote, and to cause its subsidiaries to vote, in favor of the approval of the merger proposal at the UGC special meeting. The directors and executive officers of LMI (including Mr. Malone), who together beneficially own shares of UGC common stock representing less than 1% of UGC's aggregate voting power, as of March 31, 2005, have indicated to UGC that they intend to vote in favor of the approval of the merger proposal at the UGC special meeting.

***Transactions in UGC Securities***

Except as described below, none of (1) LMI or its wholly owned subsidiaries, (2) the directors and executive officers of UGC, or (3) the directors and executive officers of LMI:

has effected any transactions in shares of UGC common stock during the 60 days preceding the date of this joint proxy statement/ prospectus; or

intends to effect any such transactions prior to the stockholders meetings.

Certain of UGC's executive officers hold restricted stock awards under UGC's equity incentive plans. A portion of the restricted shares of UGC Class A common stock granted to these persons will vest prior to the stockholders meetings. UGC and most of these executive officers whose grants will so vest have agreed that UGC will withhold, upon the vesting date, a number of shares sufficient to satisfy the withholding tax obligations associated with the vesting. Pursuant to UGC's defined contribution 401(k) plan (UGC 401(k) Plan), on March 31, 2005, UGC matched the contributions of its employees, including certain of its executive officers, to their respective 401(k) accounts by issuing to those accounts shares of UGC Class A common stock.

Pursuant to LMI's services agreement with UGC, LMI's employees, including certain of its executive officers, participate in the UGC 401(k) Plan. Accordingly, on March 31, 2005, UGC also matched the contributions of LMI's employees, including certain of its executive officers, to their respective 401(k) accounts by issuing to those accounts shares of UGC Class A common stock. LMI reimburses UGC for such stock issuances pursuant to LMI's services agreement with UGC.

**Accounting Treatment**

The mergers will be accounted for as a step acquisition by LMI of the remaining minority interest in UGC. The purchase price in this step acquisition will include the consideration issued to UGC public stockholders to acquire the UGC interest not already owned by LMI and the direct acquisition costs incurred by LMI. As UGC was a

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consolidated subsidiary of LMI prior to the mergers, the purchase price will first be applied to eliminate the minority interest in UGC from the consolidated balance sheet of LMI, and the remaining purchase price will be allocated on a pro rata basis to the identifiable assets and liabilities of UGC based upon their respective fair values at the effective date of the mergers and the 46.5% interest in UGC to be acquired by Liberty Global pursuant to the mergers. Any excess purchase price that remains after amounts have been allocated to the net identifiable assets of UGC will be recorded as goodwill. As the acquiring company for accounting purposes, LMI will be the predecessor to Liberty Global and the historical financial statements of LMI will become the historical financial statements of Liberty Global. See Liberty Global Unaudited Condensed Pro Forma Combined Financial Statements.

**Regulatory Matters**

At the date of this joint proxy statement/ prospectus, each of LMI and UGC has obtained all regulatory approvals required for the completion of the mergers.

**Appraisal or Dissenters Rights**

Under Section 262 of the Delaware General Corporation Law (DGCL), holders of shares of UGC Class A common stock will not be entitled to appraisal rights in connection with the UGC merger. Unlike holders of shares of UGC Class A common stock, holders of shares of UGC Class B common stock or UGC Class C common stock (in each case, other than LMI and its wholly owned subsidiaries) will be entitled to appraisal rights in connection with the UGC merger because those shares are not listed on a stock exchange or traded on the Nasdaq National Market and are held of record by less than 2,000 persons. At the date of this joint proxy statement/ prospectus, the only holders of UGC Class B or Class C common stock other than LMI and its wholly owned subsidiaries are Liberty and its wholly owned subsidiaries, which own shares of UGC Class C common stock. Gene W. Schneider, the Chairman of the Board of UGC, and two employees of UGC hold currently exercisable options to acquire shares of UGC Class B common stock; however, none of Mr. Schneider and the two employees will be entitled to appraisal rights with respect to those shares unless their respective options are first exercised.

Under Section 262 of the DGCL, LMI stockholders are not entitled to appraisal rights in connection with the LMI merger.

Section 262 of the DGCL is included as Appendix H to this joint proxy statement/ prospectus and is incorporated herein in its entirety by this reference.

**Federal Securities Law Consequences**

The issuance of shares of Liberty Global common stock in the mergers will be registered under the Securities Act, and the shares of Liberty Global common stock so issued will be freely transferable under the Securities Act, except for shares of Liberty Global common stock issued to any person who is deemed to be an affiliate of either LMI or UGC at the time of the stockholders meetings. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with either LMI or UGC and may include directors, executive officers and significant stockholders of each of LMI and UGC. Affiliates may not sell their shares of Liberty Global common stock acquired in connection with the mergers, except pursuant to:

an effective registration statement under the Securities Act covering the resale of those shares;

an exemption under paragraph (d) of Rule 145 under the Securities Act; or

any other applicable exemption under the Securities Act.

Liberty Global's registration statement on Form S-4, of which this document forms a part, does not cover the resale of shares of Liberty Global common stock to be received by affiliates in the mergers. The merger agreement requires that LMI and UGC each use its commercially reasonable efforts to cause each of their respective affiliates to deliver to Liberty Global a written agreement to the effect that these persons will not sell, transfer or otherwise dispose of any of the shares of Liberty Global common stock issued to them in the mergers in violation of the Securities Act or the related rules and regulations of the Securities and Exchange Commission. See The Transaction Agreements Merger Agreement Covenants.

**Class Action Lawsuits Relating to the UGC Merger**

Since January 18, 2005, twenty-one lawsuits have been filed in the Delaware Court of Chancery and one lawsuit has been filed in 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 LMI and UGC of the merger agreement. The

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defendants named in these actions include 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), UGC and LMI. The allegations in each of the complaints, which are substantially similar, assert that the defendants have breached their fiduciary duties of loyalty, care, good faith and candor and that various defendants have engaged in self-dealing and unjust enrichment, 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 UGC merger, the complaints seek remedies including damages for the public holders of UGC stock and an award of attorney's fees to plaintiffs' counsel. In connection with the Delaware lawsuits, defendants have been served with one request for production of documents. On February 11, 2005, the Delaware Court of Chancery consolidated all twenty-one Delaware lawsuits into a single action. Under the terms of the court's consolidation order, the plaintiffs are required to file a consolidated amended complaint as soon as practicable, and the defendants are not required to respond to any other complaints filed in the twenty-one constituent actions. As of the date of this joint proxy statement/prospectus, the plaintiffs have not filed a consolidated amended complaint and, pursuant to the terms of the court order, the defendants have not filed an answer or other response. The defendants believe the lawsuits are without merit.

### **Provisions for Unaffiliated Stockholders of UGC**

Delaware law provides stockholders of a Delaware corporation who have a proper purpose and who meet certain statutory requirements the right to inspect a list of stockholders and other corporate books and records. Other than in accordance with Delaware law or any action by a governmental authority, the unaffiliated stockholders of UGC will not be given any special access to the corporate files of UGC in connection with or in contemplation of the mergers. Unless otherwise required by Delaware law or any action by a governmental authority, neither UGC nor LMI intends to obtain counsel or appraisal services for the unaffiliated stockholders of UGC in connection with the mergers.

### **Plans for UGC After the Mergers; Certain Effects of the Mergers**

#### ***UGC Business***

Following the mergers, the business and operations of UGC will be conducted substantially as they are currently being conducted with the exception that, among other things, UGC will become a subsidiary of a new parent company named Liberty Global, Inc. The centralized management, administration, finance, accounting, legal and other parent company tasks performed by UGC prior to the mergers will be performed by Liberty Global following the mergers. It is anticipated that the centralization of these functions will not create an economic benefit for UGC as we anticipate that substantially all of UGC's corporate staff will either remain employed by UGC or will become members of Liberty Global's corporate staff following the completion of the mergers. However, the centralization of these functions is anticipated to provide LMI with potential cost-savings. Since its June 2004 spin off, LMI has paid Liberty for the portion of Liberty's personnel costs (taking into account wages and fringe benefits) allocable to LMI for time spent by Liberty personnel performing services for LMI under the services agreement entered into between LMI and Liberty at the time of the spin off. Following the mergers, it is anticipated that the corporate staff of Liberty Global and its subsidiaries will perform the services previously provided by Liberty personnel under the services agreement. Based upon the amounts budgeted to be paid to Liberty for LMI's allocable portion of Liberty's personnel costs for 2005, it is estimated that LMI will realize an annualized cost savings of approximately \$700,000 as a result of the centralization of these functions.

#### ***UGC Directors and Officers***

Following the mergers, Liberty Global's management team will be responsible for the businesses of UGC. Liberty Global's management team will include certain members of UGC's current management team, including Michael T. Fries, the President and Chief Executive Officer of UGC, who has agreed to serve as the President and Chief Executive Officer of Liberty Global. Liberty Global will have a staggered board that will include five of UGC's ten directors, who will be assigned to board classes with different terms than those to which they are currently assigned on UGC's board. See Management of Liberty Global.

Following the mergers, we expect each of LMI and UGC to have a board of directors comprised of officers of Liberty Global because LMI and UGC will become subsidiaries of Liberty Global in the mergers. Hence, UGC will no longer have a separate audit committee and compensation committee, eliminating the fees paid by UGC to and expenses paid

by UGC on behalf of its nonemployee directors and committee members, which aggregated \$258,000 for the year ended December 31, 2004. For information regarding UGC's director compensation policy, see Item 11. Executive Compensation Compensation of Directors in UGC's Annual Report on Form 10-K/ A for the year ended December 31, 2004, which is incorporated by reference in this joint proxy statement/ prospectus.

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For information regarding the current directors and executive officers of LMI, Liberty Global, LMI Merger Sub and UGC Mergers Sub, see Management of LMI, including Current Management of Liberty Global, LMI Merger Sub and UGC Merger Sub included under Management of LMI.

***UGC Capital Structure***

UGC will be the surviving corporation in the UGC merger, and its existing capital structure will remain in place immediately following the mergers. Each share of UGC common stock acquired by Liberty Global in the UGC merger will be converted into one share of the corresponding class of common stock of UGC as the surviving corporation and will remain outstanding immediately following the mergers, and each share of UGC common stock held by LMI or any of its wholly owned subsidiaries, at the time of the UGC merger, will be converted into one share of the corresponding class of common stock of UGC as the surviving corporation and will remain outstanding immediately following the mergers. As a result, Liberty Global will own directly 46.5% of the common stock of UGC as the surviving corporation in the UGC merger, and indirectly through Liberty Global's wholly owned subsidiary LMI 53.5% of the common stock of UGC as the surviving corporation in the UGC merger (based upon outstanding UGC share information as of March 31, 2005).

Liberty Global will have a different capital structure than UGC has. See Description of Liberty Global Capital Stock and Comparison of Rights of Stockholders of LMI, UGC and Liberty Global. In addition, it is anticipated that Liberty Global common stock will have greater liquidity due to the size of Liberty Global's stockholder base. However, we cannot quantify the benefit of this liquidity to the unaffiliated stockholders of UGC who make the stock election in the UGC merger.

***Outstanding Convertible Notes of UGC***

As of December 31, 2004, UGC had outstanding 500,000,000 aggregate principal amount of 3¼% convertible senior notes due April 15, 2024 (which we refer to as the UGC convertible notes). The UGC convertible notes were issued under an indenture dated as of April 6, 2004 between UGC and The Bank of New York, as trustee. The indenture provides that after the consummation of the UGC merger, the note holders will be entitled, subject to the restrictions on convertibility set forth in the indenture, to convert their notes into the number of shares of Liberty Global Series A common stock that they would have received in the UGC merger if they had converted their notes into UGC Class A common stock immediately prior to the UGC merger and had made the stock election. In connection with the mergers, UGC, Liberty Global and the trustee will enter into a supplemental indenture to implement this modification in the conversion right of the UGC convertible notes. In addition, under the indenture the UGC convertible notes will become convertible in connection with the UGC merger unless at least 90% of the aggregate value of the merger consideration (excluding cash payments for fractional share interests) into which the UGC Class A common stock is converted consists of Liberty Global Series A common stock. Hence, whether the UGC convertible notes become convertible in connection with the UGC merger will depend on the amount of cash paid to those UGC stockholders (if any) who make the cash election for their shares of UGC Class A common stock. Under the conversion provisions of the indenture, UGC convertible notes are convertible into, at the option of UGC, (1) shares of UGC Class A common stock at the conversion price of 9.7561 euros per share, (2) an amount in cash determined by multiplying the number of shares of UGC Class A common stock into which the surrendered note is convertible by a measure of the average trading price of UGC Class A common stock for the five trading days following the conversion date, or (3) a combination of such stock and cash. UGC will give the requisite notice under the indenture of any conversion rights accruing to holders of the UGC convertible notes in connection with the UGC merger at least 20 days prior to the anticipated effective date of the UGC merger, and the procedures to be followed to effect conversion. The merger will not constitute a change in control as defined in the indenture, which would have given the note holders the right to require UGC to repurchase the UGC convertible notes at par, plus accrued and unpaid interest.

***Listing and Registration; Reporting Obligations***

Following the mergers, UGC Class A common stock will be delisted from the Nasdaq National Market and deregistered under the Exchange Act, and UGC will cease to be a reporting company under the Exchange Act. During 2004, UGC incurred approximately \$2.7 million in compliance costs associated with its reporting obligations (excluding fees paid to UGC's independent auditors) and approximately \$128,000 in Nasdaq listing fees. Not paying



these costs and fees will represent a cost-savings for UGC following the completion of the mergers. Following the mergers, LMI Series A common stock and LMI Series B common stock will be delisted from the Nasdaq National Market and deregistered under the Exchange Act, and LMI will cease to be a reporting company under the Exchange Act. However, we do not anticipate realizing any economic benefits associated with this

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delistment, deregistration and cessation of reporting obligations because Liberty Global will incur comparable costs to those that LMI otherwise would have incurred had the mergers not been completed.

It is anticipated that the shares of Liberty Global common stock issuable in connection with the mergers will be registered under the Exchange Act, and it is a condition to the mergers that such shares be authorized for listing on the Nasdaq National Market, subject only to official notice of issuance. It is expected that Liberty Global Series A common stock and Series B common stock will be listed on the Nasdaq National Market under the symbols LBTYA and LBTYB, respectively, the same symbols under which LMI common stock currently trades. Liberty Global will become subject to the reporting requirements of the Exchange Act contemporaneously with the completion of the mergers.

Neither LMI Merger Sub nor UGC Merger Sub has or will have any securities listed on a securities exchange or registered under the Exchange Act. Neither LMI Merger Sub nor UGC Merger Sub is or will be subject to the reporting obligations of the Exchange Act.

***Effect on Net Book Value and Net Earnings***

As the successor entity to LMI, Liberty Global would have experienced, on a pro forma basis, (1) an increase of \$3,458,829,000 in its interest in the net book value of UGC at December 31, 2004 if the mergers had been completed at December 31, 2004 and the unaffiliated stockholders of UGC had elected to receive all stock consideration. In addition, Liberty Global would have experienced, on a pro forma basis, an increase of \$179,433,000 in its interest in the net loss of UGC for the year ended December 31, 2004 if the mergers had been completed at January 1, 2004 and the unaffiliated stockholders of UGC had elected to receive all stock consideration. Such changes in Liberty Global's interest in UGC's net book value and net loss are the result of the increase in Liberty Global's ownership interest in UGC that will occur if the mergers are consummated. If the mergers had been completed at December 31, 2004, Liberty Global's ownership interest in UGC would have increased to 100% from the 53.6% owned by LMI at that date. There is no effect on LMI's interest in UGC's net book value or net loss as a result of the mergers. For additional information, see Liberty Global Unaudited Condensed Pro Forma Combined Financial Statements.

Neither LMI Merger Sub nor UGC Merger Sub has any interests, or has had any historical interests, in the net book value or net loss of UGC. Following the completion of the mergers, each of LMI Merger Sub and UGC Merger will cease to exist. As a result, neither company will ever have an interest in the net book value or net loss of UGC.

***Other***

If the mergers are completed, and except as described in this joint proxy statement/prospectus, none of LMI, Liberty Global, LMI Merger Sub or UGC Merger Sub has any plans or proposals that relate to or would result in:

any extraordinary transaction, such as a merger, reorganization or liquidation, involving UGC or any of its subsidiaries;

any purchase, sale or transfer of a material amount of assets of UGC or any of its subsidiaries;

the acquisition or disposition by any person of additional securities of UGC; or

any other material change in UGC's corporate structure and business.

**Forward-Looking Information; Certain Projections**

Although UGC and LMI both provide limited annual guidance from time to time regarding selected financial and operating measures, neither, as a matter of course, makes public detailed financial projections. However, certain projections and other non-public information relating to UGC and certain of the other assets of LMI were provided to Morgan Stanley and Banc of America Securities for use by them in formulating their respective opinions summarized under Opinion of the Financial Advisor to the Special Committee and Opinion of LMI's Financial Advisor. All such non-public information provided by LMI to Morgan Stanley was provided pursuant to a nondisclosure agreement entered into between LMI and Morgan Stanley in December 2004. All such non-public information provided by UGC to Banc of America was provided pursuant to a nondisclosure agreement entered into between UGC and Banc of America Securities in January 2005. The projections and other information summarized below are included in this

proxy statement/prospectus solely because such information was provided to one or both of such financial advisors. None of the financial projections summarized below were prepared with a view to public disclosure or compliance with published guidelines of the SEC or the American Institute of Certified Public Accountants regarding prospective

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financial information. Neither UGC's nor LMI's independent accountants have compiled, examined or reviewed any of the projections or performed any procedures with respect to such projections, and expressly disclaim any association with them. Each of the projections summarized below reflect numerous assumptions with respect to business, economic, regulatory, competitive and market conditions and other matters, all of which are difficult to predict and many of which are beyond the control of the company as to which the projections were prepared. None of the projections were prepared in anticipation of the proposed mergers and hence do not give any effect to the mergers. There can be no assurance that the assumptions made in preparing the projections summarized below will prove accurate, and the future financial results of each company for which projections are summarized below may differ materially from those reflected in such projections.

In light of the uncertainties inherent in forward-looking information of any kind, we caution against placing undue reliance on any of the information summarized below. For information concerning the variety of factors which may cause the future financial results of each company for which projections are summarized below to materially vary from such projected results, see Information Regarding Forward-Looking Statements. Neither UGC nor LMI intends to update or revise any of the projections summarized below to reflect circumstances existing after the date they were prepared or to reflect the occurrence of future events. None of the projections should be viewed as a representation by UGC, the Special Committee, LMI or any of their advisors or representatives that the forecasts reflected therein will be achieved.

*Financial Projections Regarding UGC*

In late December 2004, UGC management provided to Morgan Stanley, the financial advisor to the Special Committee, preliminary budget projections for UGC for 2005 (the Preliminary Budget) and projected debt information for UGC for year-end 2005 and 2004. In early January 2005, UGC management provided to Morgan Stanley projected selected compound annual growth rates for UGC's broadband operations for the next five years. The projections were not provided to LMI or to any directors of UGC who are also officers of LMI. In January 2005, UGC management provided certain of the information summarized below to Banc of America Securities, the financial advisor to LMI. Although the projections summarized below were prepared by UGC management in the course of UGC's 2005 budget process, the 2005 budget ultimately approved by the UGC board (the Approved Budget) differed in some respects from the Preliminary Budget, as indicated in the table below.

The projections provided to Morgan Stanley and summarized below were prepared internally by UGC management as of December 26, 2004, as part of UGC's regular internal budgeting process, were preliminary, and were not reviewed by the Special Committee or the UGC board prior to the time they were provided to Morgan Stanley. The projections are based on assumptions which UGC believes were reasonable, given the information known by its management at the time the projections were prepared. Hence, UGC believes that Morgan Stanley was reasonable in relying on the provided projections as part of the mix of information considered by Morgan Stanley in connection with its analyses of the fairness of the consideration being paid to the unaffiliated stockholders of UGC.

*Budget Information for 2005*

The Preliminary Budget and the Approved Budget have assumed the foreign currency exchange rates indicated below, which were the approximate 2004 year-to-date average exchange rates for the Euro and the Chilean Peso, respectively. The actual exchange rates in effect at December 31, 2004 were significantly different, as were the exchange rates used by Morgan Stanley in its analyses. Fluctuations in exchange rates relative to the U.S. dollar can significantly affect the actual financial results of UGC.

**2005 Budget for UGC (1)**  
**(RGUs in Thousands; US\$'s in Millions)**

|                      | <b>Preliminary<br/>Budget</b> | <b>Approved<br/>Budget</b> |
|----------------------|-------------------------------|----------------------------|
| Total RGUs (2)       | 12,526                        | 12,526                     |
| Net Gain in RGUs (2) | 1,091                         | 1,088                      |

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|                                 |    |         |    |         |
|---------------------------------|----|---------|----|---------|
| Revenue                         | \$ | 3,184   | \$ | 3,182   |
| Operating Expense               |    | (2,100) |    | (2,106) |
| Operating Cash Flow ( OCF ) (3) | \$ | 1,084   | \$ | 1,076   |
| <i>OCF % Margin</i>             |    | 34%     |    | 34%     |
| Capital Expenditures            |    | (703)   |    | (703)   |

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|   | <b>Preliminary<br/>Budget</b> | <b>Approved<br/>Budget</b> |
|---|-------------------------------|----------------------------|
| <i>Capex as % of Revenue</i>              | 22%                           | 22%                        |
| Operating FCF                             | 381                           | 373                        |
| Interest, working capital and other       | (268)                         | (260)                      |
| Free Cash Flow ( FCF ) (4)                | \$ 113                        | \$ 113                     |
| <b>Foreign Exchange Rate Assumptions:</b> |                               |                            |
| US\$ per Euro 1                           | 1.23                          | 1.23                       |
| Chilean Pesos per US\$1                   | 610                           | 610                        |

(1) The Preliminary Budget and the Approved Budget presented in this table (other than RGUs) include the impact of certain acquisitions that were completed in 2004 or were expected to be completed in the first quarter of 2005. These acquisitions include broadband businesses in Ireland (Chorus) and the content/programming businesses of ZoneVision and Canal+ NL (which has not closed as of the date of this joint proxy statement/prospectus and the closing of which is conditioned upon receipt of regulatory approval which has not yet been granted). Specifically, the Preliminary Budget and the Approved Budget include an assumption as to the completion and timing of the Canal+ NL acquisition which has not yet closed but which management assumed would close in the first quarter of 2005 for budgeting purposes. The impact of the February 2005 acquisition of broadband businesses in Slovenia (Telemach) was not accounted for in the information presented.

(2) A Revenue Generating Unit ( RGU ) is separately an analog cable subscriber, digital cable subscriber, direct-to-home satellite distribution subscriber, multipoint microwave (wireless) distribution system subscriber, Internet subscriber or telephony subscriber. A home may contain one or more RGUs. For example, if a residential customer in UGC's Austrian system subscribed to its analog cable service, digital cable service, telephony service and high-speed Internet access service, that customer would constitute four RGUs. Excludes RGUs from the Chorus acquisition, which closed in December 2004.

(3) Operating Cash Flow ( OCF ) is defined by UGC as revenue less operating, selling, general and administrative expenses (excluding depreciation and amortization, impairment of long-lived assets, restructuring charges and other and stock-based compensation).

(4) Free Cash Flow ( FCF ) is defined by UGC as net cash flows from operating activities less capital expenditures. FCF is inherently difficult to predict, primarily due to uncertainties associated with working capital forecasts. The definition of OCF set forth in footnote (3) above also reflects the definition of EBITDA, as that term is used in Special Factors, including in this Forward-Looking Information; Certain Projections. For instance, UGC's 2005 estimated EBITDA referred to under Special Factors Opinion of the Financial Advisor to the Special Committee Comparable Company Analysis is equal to the OCF number included in the Preliminary Budget.

*Material Assumptions*

The material assumptions made by UGC management in developing the Preliminary Budget and the Approved Budget, in addition to the assumptions referred to in footnote (1) above, were as follows:

*Revenue.* The revenue increase compared to the fiscal 2004 result is generally based on the following assumptions:

Increase in RGUs primarily driven by advanced services (Voice-over-Internet Protocol (VoIP), high-speed Internet access and digital video RGUs).

ARPU per RGU increases for analog cable subscribers generally in line with inflation and ARPU per RGU for other products driven by expected competition. (The definition of ARPU per RGU is provided in footnote (1) to the table below.)

A full year of operations for UGC's acquisitions that closed during 2004 (e.g., the Noos acquisition closed on July 1, 2004), as well as the Canal+ NL acquisition assumed to close in February 2005.

*Operating Expense.* The increase in estimated operating expense compared to the fiscal 2004 result is generally based on the following assumptions:

Projected RGU net additions described above and corresponding marketing, customer care and support costs.

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A full year of operations for UGC's acquisitions that closed during 2004 as well as the Canal+ NL acquisition assumed to close in February 2005.

Operating expenses as a result of higher headcount to support new service deployments and for payroll increases generally in line with inflation.

Programming expenses generally assumed to increase in line with UGC's increased digital offering.

*Capital Expenditures.* The increase in estimated capital expenditures compared to the fiscal 2004 result is generally based on the following assumptions:

Projected RGU net additions described above, in particular VoIP, and the corresponding consumer premise equipment and network costs.

A substantial increase in two-way homes passed, principally in Central and Eastern Europe, to enable UGC to offer high-speed Internet access and VoIP.

Capital expenditures associated with digital video expansion plans in certain markets.

A full year of operations for UGC's acquisitions that closed during 2004.

*Interest, Working Capital and Other.* The increase in net interest, working capital and other costs compared to the fiscal 2004 result is generally based on the following assumptions:

Working capital impact due to RGU net additions (e.g., increase in accounts receivable).

Increase in interest expense associated with the debt financing of acquisitions that closed during 2004.

An increase in underlying base rates (principally Euribor) on subsidiary credit facilities associated with a higher interest rate environment, offset by a reduction in credit spreads due to refinancings that closed during 2004.

*Net Debt for 2004 and 2005*

UGC management provided to Morgan Stanley net debt information for 2005 and 2004 of \$3,483 million and \$2,986 million, respectively, which represent the estimated amounts as of December 31, 2005 and 2004, respectively, of the sum of total debt less total cash and cash equivalents. These estimates were derived using the US\$ per Euro 1 exchange rate of 1.23 listed in the table above, which was significantly different from the exchange rate in effect at December 31, 2004 and the exchange rate used by Morgan Stanley in its analyses.

*Compound Annual Growth Rates*

UGC management provided to Morgan Stanley and Banc of America Securities the following compound annual growth rates for UGC's broadband operations, on a consolidated basis, for the five year period 2004-2009. These estimates were also derived using the US\$ per Euro 1 exchange rate of 1.23 listed in the table above, which was significantly different from the exchange rate in effect at December 31, 2004 and the exchange rate used by Morgan Stanley in its analyses.

**UGC Consol.**

|                      |         |
|----------------------|---------|
| RGUs                 | 5%-7%   |
| ARPU per RGU (1)     | 6%-8%   |
| Revenue              | 12%-14% |
| OCF                  | 18%-20% |
| Capex (% of Revenue) | 8%-12%  |



- (1) Average Revenue per Revenue Generating Unit (ARPU per RGU) compound annual growth rate is calculated from the projected annual broadband revenue for each year in the period, divided by the average of the opening and closing RGUs for that year.

*Material Assumptions*

In developing the foregoing ranges of compound annual growth rates for UGC's broadband operations, on a consolidated basis, for the five year period 2004-2009, UGC management used the same 2005 budget assumptions

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described under Budget Information for 2005 Material Assumptions above, as well as the following assumptions:

*RGUs.* The projected range of RGU compound annual growth rates is generally based on the assumption that growth will be primarily driven by advanced services (VoIP, high-speed Internet access and digital video RGUs), due to UGC's marketing efforts in general and an increase in homes serviceable for these advanced services (e.g., two-way homes passed, Internet homes serviceable and telephony homes serviceable, etc.), as well as an increase in the corresponding penetration levels for these services from existing serviceable homes.

*ARPU per RGU.* The projected range of ARPU per RGU compound annual growth rates is generally based on the following assumptions:

Increase in ARPU per RGU due primarily to the projected increase in advanced service RGUs.

ARPU per RGU increases for analog cable subscribers generally in line with inflation.

*Revenue.* The projected range of revenue compound annual growth rates is generally based on the assumed increase in RGUs and ARPU per RGU mentioned above.

*OCF.* The projected range of OCF compound annual growth rates is generally based on the following assumptions:

The incremental cash flow associated with the anticipated higher penetration of the advanced service RGUs.

Operating expenses in general will increase at a slower rate than revenue growth.

*Capital Expenditures.* The range in capital expenditures as a percent of revenue is generally based on the following assumptions:

The vast majority of the upgrade costs associated with increasing the number of homes serviceable to offer the advanced services will be substantially completed prior to 2009. Management anticipates that capital expenditures will be above the forecasted range of 8% - 12% until approximately 2009.

Consumer premise equipment costs will continue to decline in line with historical trends.

The projections set forth above should be read together with UGC's historical financial statements and other financial information and Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004, which is incorporated by reference into this joint proxy statement/prospectus. See Additional Information Where You Can Find More Information.

*Financial Projections Regarding J-COM*

LMI management provided to Morgan Stanley in late December 2004 and to Banc of America Securities in early January 2005 forward-looking information for J-COM, which was included in the following presentations: (1) J-COM's budget for 2005 in the form presented to J-COM's board of directors on December 16, 2004; (2) J-COM's medium term business plan for the three years ended 2007, dated December 16, 2004; and (3) a slide presentation, dated December 13, 2004 (the IPO Pricing Slides), prepared by J-COM's Joint Global Coordinators in connection with pricing talks on J-COM's then forthcoming IPO (which priced on March 14, 2005 and closed on March 23, 2005). The 2005 budget was prepared internally by J-COM management as part of J-COM's regular budget process and was approved by J-COM's board of directors on December 16, 2004. The medium term business plan, which was also approved by J-COM's board of directors on December 16, 2004, was prepared as part of J-COM's application to the JASDAQ Securities Exchange, Inc. in connection with J-COM's IPO. The financial projections included in the IPO Pricing Slides were derived by the Joint Global Coordinators from information provided by J-COM management. None of the J-COM 2005 budget, medium term plan or the IPO Pricing Slides was provided to UGC or to any member of the Special Committee. LMI did not participate in the preparation of any of the projections summarized below, although two of its executive officers serve as directors of J-COM and they reviewed and approved the 2005 budget and medium term plan in that capacity. J-COM did not participate in any discussions with or presentations made by Morgan Stanley or Banc of America Securities, nor did J-COM participate in preparing this joint proxy

statement/prospectus or summarizing the projections set forth below for inclusion in this joint proxy statement/prospectus.

The US dollar figures in the tables below are based on an exchange rate of 0.00975 US\$ per 1 yen, which was the exchange rate used by Morgan Stanley for purposes of its valuation of J-COM. Banc of America Securities used an exchange rate of 0.0098 US\$ per 1 yen.

**Table of Contents****Projections from J-COM Pricing Slides**  
(In millions)

|                             | 2005    |       | 2006    |       | 2007    |       | 2008    |       |
|-----------------------------|---------|-------|---------|-------|---------|-------|---------|-------|
|                             | ¥       | \$    | ¥       | \$    | ¥       | \$    | ¥       | \$    |
| Revenue                     | 186,077 | 1,814 | 214,556 | 2,092 | 246,901 | 2,407 | 276,284 | 2,694 |
| EBITDA                      | 74,670  | 728   | 88,166  | 860   | 106,384 | 1,037 | 123,258 | 1,202 |
| Capex                       | 56,385  | 550   | 63,199  | 616   | 65,621  | 640   | 60,296  | 588   |
| Unlevered Free Cash Flow(1) | 18,226  | 178   | 19,484  | 190   | 29,721  | 290   | 44,549  | 434   |

(1) Unlevered Free Cash Flow is determined before deduction of interest expense.

**Projections from J-COM 2005 Budget and Medium Term Plan**  
(In millions)

|                   | 2005    |       | 2006    |       | 2007    |       |
|-------------------|---------|-------|---------|-------|---------|-------|
|                   | ¥       | \$    | ¥       | \$    | ¥       | \$    |
| Revenue           | 185,297 | 1,807 | 214,556 | 2,092 | 246,901 | 2,407 |
| EBITDA            | 74,280  | 724   | 88,166  | 860   | 106,384 | 1,037 |
| Capex             | 58,410  | 569   | 64,100  | 625   | 66,532  | 649   |
| Adjusted Capex(1) | 39,242  | 383   | 43,482  | 424   | 42,685  | 416   |
| Free Cash Flow    | 2,283   | 22    | 13,223  | 129   | 22,758  | 222   |

(1) Adjusted Capex excludes assets acquired under capitalized lease arrangements.

J-COM defines Free Cash Flow as cash provided by operating activities less capital expenditures. J-COM includes in its Free Cash Flow both interest expense and assets acquired under capitalized lease arrangements as deductions.

In addition to the difference between Free Cash Flow and Unlevered Free Cash Flow noted above, the projections for 2005 included in the J-COM 2005 budget and medium term business plan differed from those measures in the IPO Pricing Slides due to changes in the expected timing of anticipated acquisitions in 2005 and for the timing of interest payments, income taxes and capital expenditures. In the case of Free Cash Flow and Unlevered Free Cash Flow for 2006 and 2007, those measures also differed because of changes to assumptions regarding the timing and amount of capital expenditures and income taxes.

*Material Assumptions*

The material assumptions made by J-COM management in developing the foregoing projections were as follows:

Cable television subscriber growth is driven by take up of digital services, new content, acceptance of video-on-demand and bundling.

Internet subscriber growth is driven by adoption of 30MBps service, new content and bundling.

Telephony subscriber growth is driven by build out of network and bundling.

External price competition continues at current levels (no price cutting) and J-COM's prices remain largely constant.

Operating costs contain a significant fixed cost element and decrease as percentage of revenue as more services are introduced to and accepted by subscribers and more customers subscribe to bundled services.

Capital expenditures grows in tandem with subscriber growth. Customer premise equipment costs assumed to decline gradually over time as a result of unit price decreases and improved efficiencies in utilization of equipment.

*Financial Projections Regarding Other Assets of LMI*

Morgan Stanley and Banc of America Securities also used for purposes of their respective analyses forward-looking information for 2005 for the following companies in which LMI has an investment: Jupiter Programming Co., Ltd (50% ownership), Liberty Cablevision of Puerto Rico Ltd. (100% ownership) and Pramer S.C.A (100% ownership).

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Morgan Stanley also used year-end forecasts for 2004 for Liberty Cablevision of Puerto Rico, which are included below. None of the projections summarized below were provided to UGC or to any member of the Special Committee.

*Jupiter Programming Co., Ltd.*

LMI management provided slides from a JPC board of directors meeting on December 14, 2004, which included the following 2005 budget numbers prepared by JPC management. The 2005 budget was prepared internally by JPC management as part of JPC's regular budget process and was approved by JPC's board of directors. LMI did not participate in the preparation of the following 2005 budget numbers, although two of its executive officers serve as directors of JPC and they reviewed and approved the 2005 budget numbers in that capacity. The US dollar figures in the table below are based on an exchange rate of 0.00975 US\$ per 1 yen.

**JPC 2005 Budget**  
(In millions)

|                  | ¥      | \$  |
|------------------|--------|-----|
| Revenue          | 77,035 | 751 |
| Operations Costs | 64,573 | 630 |
| EBITDA           | 12,462 | 121 |
| Pre-Tax Income   | 7,072  | 69  |

*Material Assumptions.* The material assumptions made by JPC management in developing the foregoing projections were as follows:

Revenues and EBITDA are assumed to derive primarily from JPC's 70% owned SHOP channel. Revenue growth for SHOP channel assumes better penetration and increased sales per customer, offset by increased sales, distribution, fulfillment, telemarketing and administrative costs.

Subscription and other revenue growth is realized at other established channels, offset by anticipated losses in new channel investments.

*Liberty Cablevision of Puerto Rico Ltd.*

LMI management provided slides prepared by Liberty Cablevision of Puerto Rico management for a meeting of Liberty Cablevision of Puerto Rico's lenders on its \$140 million senior secured credit facilities, held on November 30, 2004, which included the following projections for 2005 and year-end 2004. The actual results for year-end 2004 differed from the year-end 2004 projections, as indicated in the table below.

**Liberty Cablevision of Puerto Rico**  
(In millions)

|                | Projections |           | Actual    |
|----------------|-------------|-----------|-----------|
|                | 2005        | 2004      | 2004      |
| Revenue        | \$ 97.317   | \$ 79.933 | \$ 79.410 |
| EBITDA         | 34.126      | 26.652    | 26.299    |
| Free Cash Flow | 11.625      | 3.543     | 2.590     |
| Capex          | 22.500      | 23.109    | 23.709    |

Liberty Cablevision of Puerto Rico defines Free Cash Flow as EBITDA minus capital expenditures.

*Material Assumptions.* The material assumptions made by management of Liberty Cablevision of Puerto Rico in developing the 2005 and year-end 2004 projections were as follows:

Revenue growth is driven primarily by an increase in Internet subscribers and VoIP subscribers. The growth in Internet and VoIP subscribers is being driven by Liberty Cablevision of Puerto Rico's ability to provide cost savings to its bundled customers by virtue of its ability to deliver a number of services over a single predominantly fixed cost base network.

Take up of bundled services drives EBITDA and Free Cash Flow growth due to receipt of incremental revenue over predominantly fixed cost base network.

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Capital expenditures are based on assumed subscriber growth, as these expenses are driven by cost of customer premise equipment. Also assumes expansion of existing network.

*Comparison of 2004 Actual versus Projected.*

Actual 2004 revenue was lower than 2004 projected revenue primarily as a result of a lower number of year-end video subscribers than projected.

Actual 2004 EBITDA was lower than 2004 projected EBITDA primarily as a result of the lower number of year-end video subscribers and increased marketing expenses associated with Internet access and VoIP services.

Actual 2004 capital expenditures were higher than 2004 projected capital expenditures primarily as a result of a higher than expected number of Internet and VoIP installations.

*Pramer S.C.A.*

LMI management provided slides prepared by Pramer management for a December 2004 presentation to LMI management, which included the following 2005 budget numbers.

**2005 Pramer Budget**

(In millions)

|                |           |
|----------------|-----------|
| Revenue        | \$ 42.194 |
| EBITDA         | 4.910     |
| Free Cash Flow | 1.356     |

Pramer defines Free Cash Flow as EBITDA minus working capital changes, income taxes, capital expenditures, investments, interest expense and loan amortization.

*Material Assumptions.* The material assumptions made by Pramer management in developing the foregoing projections were as follows:

Revenue is primarily driven by increase in pay television customers as the economies in Latin America continue to recover and expand.

EBITDA declines primarily due to increase in salaries, satellite and production costs.

Free Cash Flow growth is driven by positive working capital changes, reduced taxes and lower bank financing costs.



**Table of Contents****RISK FACTORS**

*In addition to the other information contained in, incorporated by reference in or included as an appendix to this joint proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote to approve the merger proposal.*

**Factors Relating to the Mergers**

***Fluctuations in market prices may cause the value of the shares of Liberty Global common stock that you receive in the mergers to be less than the value of your shares of LMI common stock or UGC common stock prior to the mergers.*** The ratios at which shares of LMI common stock and shares of UGC common stock will be converted into shares of Liberty Global common stock in the mergers are fixed, and there will be no adjustment to these ratios for changes in the market price of LMI common stock or UGC common stock. Accordingly, the value of the stock consideration to be received by holders of LMI common stock and holders of UGC common stock upon completion of the mergers is not ascertainable at this time and will ultimately depend upon the market prices of LMI common stock and UGC common stock at the effective time of the mergers. Those market prices may be higher or lower than the market prices of those shares on the date on which the merger agreement was executed, the date of this joint proxy statement/prospectus or the date on which the LMI stockholders and UGC stockholders vote on the merger proposal. Neither LMI nor UGC is permitted to walk away from the mergers or resolicit the vote of its stockholders solely because of changes in the market price of either party's common stock at any time prior to the effective time of the mergers. Also, there is no collar or other adjustment mechanism that will ensure stockholders receive merger consideration with a minimum or maximum value.

***At the time UGC stockholders make their stock election or cash election, they may not know if 0.2155 of a share of Liberty Global common stock will be worth more or less than the cash election amount of \$9.58 per share.*** To make a valid stock election or cash election, UGC stockholders must submit their form of election and related UGC shares to the exchange agent by the election deadline. The election deadline is scheduled for 5:00 p.m., New York time, on [\_\_\_\_\_], 2005. We will extend the election deadline to no later than 5:00 p.m., New York time, on the second business day prior to the completion of the mergers if we anticipate that the mergers will not occur within four business days after the initial election deadline. As the initial trading price of the shares of Liberty Global Series A common stock is expected to approximate the trading price of the LMI Series A common stock immediately prior to the completion of the mergers, there can be no assurance that the value of the stock consideration will not fluctuate, with the trading price of the LMI Series A common stock, between the submission of a form of election and the completion of the mergers. Hence, while UGC stockholders will know the value of the stock consideration at the time they submit their form of election, there can be no assurance that the stock consideration will not have a lower value when the mergers are completed and the Liberty Global Series A common stock is first made available to UGC stockholders.

***UGC stockholders who make the cash election may not have all of their UGC shares exchanged for cash, and the average per share value of the merger consideration they receive could be less than \$9.58.*** The merger agreement limits the amount of cash payable to UGC stockholders who make the cash election to no more than 20% of the aggregate value of the merger consideration payable to UGC stockholders who are not Permitted Holders within the meaning of UGC's indenture with respect to its 3/4% convertible senior notes due 2024, which we refer to as the **cash threshold amount**. The term Permitted Holders is generally defined to include LMI and Liberty and the Chief Executive Officer and each member of the board of directors of each of UGC, LMI and Liberty as of April 1, 2004 and each of their respective affiliates. If the cash threshold amount is exceeded, those UGC stockholders making the cash election will have the number of their shares of UGC stock as to which they made the cash election reduced by a pro rata amount, and will receive the stock consideration for those shares which are not exchanged for the cash consideration. Depending on the market price of the Liberty Global Series A common stock immediately after the mergers are completed, UGC stockholders who made only the cash election but who receive stock consideration for some of their shares due to proration may obtain aggregate consideration that is worth less than \$9.58 per share on a blended basis. See The Transaction Agreements Merger Agreement UGC Stockholders Making Stock and Cash Elections; Proration.

***Once UGC stockholders deliver their shares of UGC common stock to the exchange agent with their form of election, they will not be able to sell those shares unless they revoke their election prior to the election deadline.***

UGC stockholders may submit a form of election to the exchange agent at any time after the mailing of the joint proxy statement/prospectus and prior to the election deadline. To be valid, an election must be accompanied by the UGC shares as to which the election has been made. Once the exchange agent is in receipt of the UGC shares, they will not be available for settlement purposes in a trade unless and until the person who submitted the election and the shares revokes the election, prior to the election deadline, by written notice to the exchange agent.

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***Liberty Global may fail to realize the anticipated benefits of the mergers.*** The success of the mergers will depend in part on the ability of Liberty Global to realize the anticipated synergies and growth opportunities from combining the two companies. In addition, the market may not quickly, if ever, eliminate or reduce the holding company discount that we believe has suppressed the historical trading price of LMI common stock. Any failure to realize the anticipated benefits of the mergers may adversely affect the stock price of Liberty Global.

***Significant transaction costs will be incurred as a result of the mergers.*** LMI and UGC expect to incur significant one-time transaction costs, currently estimated to be approximately \$22 million, related to the mergers. These transaction costs include investment banking, legal and accounting fees and expenses of approximately \$13.8 million and SEC filing fees, printing expenses, mailing expenses and other related charges of approximately \$6.5 million. LMI and UGC may also incur additional unanticipated transaction costs in connection with the mergers. A portion of the transaction costs related to the mergers, estimated to be approximately \$18 million, will be incurred regardless of whether the mergers are completed. LMI and UGC will each pay its own transaction costs incurred, except that they will share equally all costs associated with printing and mailing this joint proxy statement/prospectus.

***We are parties to pending class action lawsuits relating to the UGC merger.*** We are parties to twenty-two lawsuits filed by third parties seeking monetary damages or injunctive relief, or both, in connection with the UGC merger. Predicting the outcome of these lawsuits is difficult; and an adverse judgment for monetary damages could have a material adverse effect on the operations of Liberty Global after the mergers, a preliminary injunction could delay or jeopardize the completion of the mergers and an adverse judgment granting injunctive relief could permanently enjoin the consummation of the mergers.

***LMI's potential indemnity liability to Liberty if the spin off is treated as a taxable transaction as a result of the mergers could materially adversely affect Liberty Global's prospects and financial condition.*** LMI entered into a tax sharing agreement with Liberty in connection with its spin off from Liberty on June 7, 2004. In the tax sharing agreement, LMI agreed to indemnify Liberty and its subsidiaries, officers and directors for any loss, including any adjustment to taxes of Liberty, resulting from (1) any action or failure to act by LMI or any of LMI's subsidiaries following the completion of the spin off that would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to Liberty and to Liberty's stockholders under Section 355 of the Code or (2) any breach of any representation or covenant given by LMI or one of LMI's subsidiaries in connection with any tax opinion delivered to Liberty relating to the qualification of the spin off as a tax-free distribution described in Section 355 of the Code. LMI's indemnification obligations to Liberty and its subsidiaries, officers and directors are not limited in amount or subject to any cap. If LMI is required to indemnify Liberty and its subsidiaries, officers and directors under the circumstances set forth in the tax sharing agreement, LMI may be subject to substantial liabilities. For more information about the tax sharing agreement, see Appendix A: Information Concerning Liberty Media International, Inc. Part 2: Certain Relationships and Related Party Transactions Agreements Between LMI and Liberty Tax Sharing Agreement.

It is a non-waivable condition to the mergers that LMI and Liberty Global shall have received the opinion of Skadden, Arps, Slate, Meagher & Flom LLP or another nationally recognized law firm reasonably acceptable to UGC (acting with the approval of the Special Committee), dated the closing date of the mergers, to the effect that, for U.S. federal income tax purposes, provided that the spin off would otherwise have qualified as a tax-free distribution under Section 355 of the Code to Liberty and the Liberty stockholders, the mergers should not cause the spin off to fail to qualify as a tax-free distribution to Liberty under Section 355(e) of the Code. In rendering such opinion, Skadden, Arps, Slate, Meagher & Flom LLP or such other alternate firm may rely upon factual representations and covenants, including those contained in certificates of officers of LMI, Liberty Global and UGC, and customary factual assumptions. Any inaccuracy in the representations, covenants and assumptions upon which such tax opinion is based could alter the conclusions reached in such opinion. Neither LMI nor Liberty Global have requested a ruling from the Internal Revenue Service as to the effect, if any, that the mergers would have on the spin off. Therefore, there can be no assurance that the Internal Revenue Service will agree with the conclusions in such opinion.

**Factors Relating to Overseas Operations and Regulations**

***The businesses of LMI and UGC are, and the businesses of Liberty Global will be, conducted almost exclusively outside of the United States, which gives rise to numerous operational risks.*** The businesses of LMI and UGC are,

and the businesses of Liberty Global will be, 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;

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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.

***LMI and UGC are, and Liberty Global is expected to be, exposed to potentially volatile fluctuations of the U.S. dollar (their functional currency) against the currencies of their 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 LMI or UGC, and, following the mergers, Liberty Global, 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, LMI, UGC and their operating subsidiaries and affiliates are, and Liberty Global and its operating subsidiaries and affiliates are expected to be, exposed to foreign currency risk to the extent that they enter into transactions denominated in currencies other than their 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, LMI and UGC are, and Liberty Global is expected to be, 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 their 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, LMI, UGC and, following the mergers, Liberty Global may experience economic loss and a negative impact on earnings and equity with respect to their holdings solely as a result of foreign currency exchange rate fluctuations. The primary exposure to foreign currency risk for LMI and UGC is, and for Liberty Global is expected to be, to the euro due to the percentage of the U.S. dollar revenue of LMI and UGC that is derived, and following the mergers is expected to be derived by Liberty Global, from countries where the euro is the functional currency. In addition, the operating results and financial condition of LMI and UGC are, and of Liberty Global following the mergers are expected to be, 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, LMI and UGC generally have not, and Liberty Global following the mergers is not expected to, enter into derivative transactions that are designed to reduce their long-term exposure to foreign currency exchange risk.

***The businesses of LMI and UGC are, and the businesses of Liberty Global will be, subject to risks of adverse regulation by foreign governments.*** The businesses of LMI and UGC are, and the businesses of Liberty Global will be, 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 LMI, UGC

and, following the mergers, Liberty Global 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 LMI and UGC operate, and, following the mergers, Liberty Global will operate, with respect to their businesses and proposed business combinations. For example, the European Union and the regulatory authorities in several countries in which LMI and UGC do business, and in which Liberty Global will do business, are considering

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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 LMI and UGC, and, following the mergers, Liberty Global, for the delivery of video, audio, Internet or other services, those providers could compete with services similar to those which the businesses of LMI and UGC offer, and, following the mergers, Liberty Global will offer, which could lead to significant price competition and loss of market share.

LMI, UGC and, following the mergers, Liberty Global 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.

***LMI, UGC and, following the mergers, Liberty Global cannot be certain that they will be successful in acquiring new businesses or integrating acquired businesses with their existing operations.*** Historically, the businesses of LMI and UGC have grown, in part, through selective acquisitions that enabled them to take advantage of existing networks, local service offerings and region-specific management expertise. LMI, UGC and, following the mergers, Liberty Global may seek to continue growing their businesses through acquisitions in selected markets. Their 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 they were 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 LMI, UGC and, following the mergers, Liberty Global will be successful in acquiring new businesses or realizing the anticipated benefits of any completed acquisition.

In addition, we anticipate that most, if not all, companies acquired by LMI, UGC or, following the mergers, Liberty Global 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 LMI, UGC and, following the mergers, Liberty Global intend to conduct appropriate due diligence and to implement appropriate controls and procedures as they integrate acquired companies, they may not be able to certify as to the effectiveness of these companies' disclosure controls and procedures or internal controls over financial reporting until they have fully integrated them.

***LMI and UGC are, and Liberty Global will be, subject to the risk of revocation or loss of their telecommunications and media licenses.*** In certain operating regions, the services provided by the businesses of LMI, UGC and, following the mergers, Liberty Global 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 the businesses of LMI, UGC and, following the mergers, Liberty Global 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 LMI, UGC and, following the mergers, Liberty Global. There can be no assurance that LMI or UGC or, following the mergers, Liberty Global 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.

***LMI, UGC and, following the mergers, Liberty Global may have to pay U.S. taxes on earnings of certain of their foreign subsidiaries regardless of whether such earnings are actually distributed to them, and they may be limited in claiming foreign tax credits; since substantially all of their revenue is generated through their foreign investments, these tax risks could have a material adverse impact on their effective income tax rate, financial condition and liquidity.*** Certain foreign corporations in which LMI and UGC have, and in which Liberty Global will have, interests particularly those in which they have or will have controlling interests, are considered to be controlled foreign corporations under U.S. tax law. In general, their pro rata share of certain income earned by their subsidiaries that are controlled foreign corporations during a taxable year when such subsidiaries have current or accumulated earnings and profits will be included in their income when the income is earned, regardless of whether the income is distributed to them. 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 LMI and UGC are investors in, and Liberty Global will be an investor in, foreign



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corporations, they could have significant amounts of Subpart F income. Although they intend to take reasonable tax planning measures to limit their tax exposure, we cannot assure you that they will be able to do so or that any of such measures will not be challenged.

In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income taxes for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of certain foreign corporations paid to the U.S. corporation as a dividend. The ability of LMI, UGC and, following the mergers, Liberty Global to claim a foreign tax credit for dividends received from their foreign subsidiaries is subject to various limitations. Some of their businesses are located in countries with which the United States does not have income tax treaties. Because LMI and UGC lack, and Liberty Global will lack, treaty protection in these countries, they may be subject to high rates of withholding taxes on distributions and other payments from their businesses and may be subject to double taxation on their income. Limitations on the ability of LMI, UGC and, following the mergers, Liberty Global to claim a foreign tax credit, their lack of treaty protection in some countries, and their 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 their earnings. Since substantially all of their revenue is generated abroad, including in jurisdictions that do not have tax treaties with the United States, these risks are proportionately greater for them 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 our services, which may adversely impact the business and stock value of LMI, UGC, and following the mergers, Liberty Global.*** 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 the businesses of LMI, UGC and, following the mergers, Liberty Global. 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 the ability of LMI, UGC, and, following the mergers, Liberty Global to continue to grow, increase their 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 LMI, UGC and, following the mergers, Liberty Global may offer, or the development of significant competitive products or services by others, could have a material adverse impact on the revenue, growth and stock price of LMI, UGC and, following the mergers, Liberty Global. 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.

***LMI and UGC operate, and, following the mergers, Liberty Global will operate, in increasingly competitive markets, and there is a risk that LMI, UGC and, following the mergers, Liberty Global 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 LMI and UGC operate, and Liberty Global will operate, are highly competitive and highly fragmented. In the provision of video services, LMI and UGC face, and Liberty Global will 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. Their 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 telephone services, LMI and UGC face, and Liberty Global will face, competition from the incumbent telecommunications operators in each country in which they 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, LMI and UGC face, and Liberty Global will 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, LMI and UGC face, and Liberty Global will 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

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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 LMI and UGC operate, and in which Liberty Global will 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 revenue and the stock price of LMI and UGC, and, following the mergers, Liberty Global, may suffer.

***LMI, UGC and, following the mergers, Liberty Global may not be able to obtain attractive programming for their digital video services, thereby lowering demand for their services.*** LMI and UGC rely, and, following the mergers, Liberty Global will rely, on programming suppliers for the bulk of their programming content. They may not be able to obtain sufficient high-quality programming for their digital video services on satisfactory terms or at all in order to offer compelling digital video services. This may reduce demand for their services, thereby lowering their future revenue. It may also limit their ability to migrate customers from lower tier programming to higher tier programming, thereby inhibiting their ability to execute their business plans. Furthermore, LMI, UGC and, following the mergers, Liberty Global 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 the operating businesses of LMI, UGC and, following the mergers, Liberty Global depend upon third parties for the distribution of their products and services.*** In certain operating regions, the businesses of LMI, UGC and, following the mergers, Liberty Global require access to utility poles, roadside conduits and leased fiber that interconnect their headends and/or connect their 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 the businesses of LMI, UGC and, following the mergers, Liberty Global. 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 the businesses of LMI, UGC and, following the mergers, Liberty Global 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 their businesses in these regions. Any cancellation, delay or interruption in these access rights would disrupt the delivery of the products and services of LMI, UGC and, following the mergers, Liberty Global 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.

***Following the mergers, Liberty Global and Liberty may compete for business opportunities.*** LMI's 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 Liberty Global's 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, Liberty Global's programming services may find themselves in direct competition with those of Liberty. Liberty Global has 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 subsidiaries or affiliates may adversely affect the interests of Liberty Global and its stockholders. Since Liberty Global will have overlapping directors with Liberty, the pursuit of these opportunities could create, or appear to create, potential conflicts of interest. See Management of Liberty Global.

**Factors Relating to Certain Financial Matters**

***The liquidity and value of the interests of LMI, UGC and, following the mergers, Liberty Global in their subsidiaries and affiliates may be adversely affected by stockholder agreements and similar agreements to which they are a party.*** LMI and UGC own, and Liberty Global will own, equity interests in a variety of international

broadband distribution and video programming businesses. Certain of these equity interests are, or will be, 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, or will 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

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remedies exercisable by other stockholders or partners. Some of the subsidiaries and affiliates of LMI and UGC and, following the mergers, Liberty Global 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.

LMI and UGC do not, and Liberty Global will not, have the right to manage the businesses or affairs of any of the companies in which they 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 LMI, UGC and, following the mergers, Liberty Global to exercise influence over the management or policies of an affiliate, they do not enable LMI, UGC or, following the mergers, Liberty Global to cause those affiliates to take actions, such as paying dividends or making distributions to their stockholders or partners.

***Following the mergers, Liberty Global may not report operating income or net earnings.*** Each of UGC and LMI has a history of reporting operating and net losses. UGC's net earnings (losses) from continuing operations amounted to \$(356.3 million) (as restated see note 27 to the consolidated financial statements of UGC, incorporated by reference herein), \$1,955.4 million and \$988.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. Although UGC had net earnings in 2003 and 2002, the net earnings were primarily attributable to gains on debt extinguishment of \$2.1 billion and \$2.2 billion, respectively. During the same periods, LMI's net earnings (losses) from continuing operations amounted to \$(18.1 million) (as restated see note 23 to the consolidated financial statements of LMI, included elsewhere herein), \$20.9 million and \$(329.9 million) for the years ended December 31, 2004, 2003 and 2002, respectively. In light of the historical financial performance of UGC and LMI, we cannot assure you that Liberty Global will report operating income or net earnings in the near future or at all.

***If LMI, UGC or, following the mergers, Liberty Global fails to meet required capital calls to a company in which it holds interests, its interests in that company could be diluted or it could forfeit important rights.*** LMI and UGC are parties to, and, following the mergers, Liberty Global may be a party 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 LMI, UGC or, following the mergers, Liberty Global holds interests may have adverse consequences to LMI, UGC or, following the mergers, Liberty Global. These consequences may include, among others, the dilution of 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 against LMI, UGC or, following the mergers, Liberty Global. The ability to meet capital calls or other capital or loan commitments is subject to the ability to access cash. See LMI, UGC and Liberty Global may not freely access the cash of their operating companies. below.

***LMI, UGC and Liberty Global may not freely access the cash of their operating companies.*** The operations of LMI and UGC are, and, following the mergers, Liberty Global will be, conducted through their respective subsidiaries. The potential sources of cash of LMI and UGC, and, following the mergers, Liberty Global will include their available cash balances, net cash from the operating activities of their subsidiaries, dividends and interest from their investments, availability under credit facilities and proceeds from asset sales. The ability of their operating subsidiaries to pay dividends or to make other payments or advances to them depends on their individual operating results and any statutory, regulatory or contractual restrictions to which they may be or may become subject. Some of LMI's and UGC's operating subsidiaries are, and, following the mergers, Liberty Global's operating subsidiaries will be, 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, including LMI, UGC and, following the mergers, Liberty Global. In addition, because these subsidiaries are separate and distinct legal entities they have no obligation to provide LMI, UGC or, following the mergers, Liberty Global with funds for payment obligations, whether by dividends, distributions, loans or other payments. With respect to those companies in which LMI, UGC or, following the mergers, Liberty Global have less than a majority voting interest, LMI and UGC do not have, and, following the mergers, Liberty Global will 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 LMI, UGC or,

following the mergers, Liberty Global.

***If, following the mergers, Liberty Global is unable to satisfy completely the regulatory requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Liberty Global's internal control over financial reporting is not effective, the reliability of Liberty Global's financial statements may be questioned and Liberty Global's 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, Liberty Global will be required to document and test its internal control procedures; Liberty Global's management will be required to assess and issue a report concerning

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Liberty Global's internal control over financial reporting; and Liberty Global's independent auditors will be required to issue an opinion on management's assessment of those matters. Liberty Global's compliance with Section 404 of the Sarbanes-Oxley Act will first be tested in connection with the filing of its Annual Report on Form 10-K for the year ending December 31, 2005. The rules governing the standards that must be met for management to assess Liberty Global's 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 its testing, Liberty Global's 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, following the mergers, Liberty Global's management cannot favorably assess the effectiveness of Liberty Global's internal control over financial reporting or Liberty Global's auditors identify material weaknesses in those controls, investor confidence in Liberty Global's financial results may weaken, and Liberty Global's stock price may suffer.

On April 25, 2005, the audit committee of UGC determined to restate the financial statements of UGC as of and for the year ended December 31, 2004, to correct an error in the accounting for UGC's \$500,000,000 aggregate principal amount of 1<sup>3</sup>/<sub>4</sub>% convertible senior notes due April 15, 2024. As a result, LMI restated its financial statements for the same period. As a result of UGC's need to restate its financial statements, UGC concluded that it had a material weakness in its internal controls over financial reporting.

***Certain subsidiaries of LMI and UGC are, and certain subsidiaries of Liberty Global will be, 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 subsidiaries of LMI and UGC are, and certain subsidiaries of Liberty Global will be, 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.

LMI and UGC are, and Liberty Global will be, typically prohibited from or significantly restricted in accessing the net cash of their 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.

**Factors Relating to Governance Matters**

*John C. Malone will have significant influence over corporate matters considered by Liberty Global and its stockholders.* Following the mergers, John C. Malone is expected to beneficially own shares of Liberty Global



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common stock representing approximately 23.1% of the aggregate voting power of Liberty Global (based upon his beneficial ownership interests in LMI and UGC, respectively, as of March 31, 2005, and assuming no cash elections are made by the UGC stockholders). By virtue of Mr. Malone's voting power in Liberty Global as well as his position as Liberty Global's Chairman of the Board, Mr. Malone will have significant influence over the outcome of any corporate transaction or other matters submitted to Liberty Global stockholders for approval, including the election of directors, mergers, consolidations and the sale of all or substantially all of Liberty Global's assets. Mr. Malone's rights to vote or dispose of his equity interests in Liberty Global will not be subject to any restrictions in favor of Liberty Global other than as may be required by applicable law and except for customary transfer restrictions pursuant to incentive award agreements.

***It may be difficult for a third party to acquire Liberty Global, even if doing so may be beneficial to Liberty Global stockholders.*** Certain provisions of Liberty Global's restated certificate of incorporation and bylaws may discourage, delay or prevent a change in control of Liberty Global 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 its board of directors to increase the number of outstanding shares and thwart a takeover attempt;

classifying its board of directors with staggered three-year terms, which may lengthen the time required to gain control of its 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 its 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 its voting power or the approval by at least 75% of its board of directors with respect to certain extraordinary matters, such as a merger or consolidation of Liberty Global, a sale of all or substantially all of its assets or an amendment to its restated certificate of incorporation or bylaws; and

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

Liberty Global's incentive plan may also discourage, delay or prevent a change in control of Liberty Global even if such change of control would be in the best interests of Liberty Global stockholders. For information regarding the relative rights of the holders of LMI common stock, UGC common stock and Liberty Global common stock, see

Comparison of the Rights of Stockholders of LMI, UGC and Liberty Global.

***Holders of any single series of Liberty Global common stock may not have any remedies if any action by Liberty Global's directors or officers has an adverse effect on only that series of Liberty Global common stock.*** Principles of Delaware law and the provisions of Liberty Global's restated certificate of incorporation may protect decisions of Liberty Global's board of directors that have a disparate impact upon holders of any single series of Liberty Global common stock. Under Delaware law, Liberty Global's board of directors has a duty to act with due care and in the best

interests of all Liberty Global stockholders, including the holders of all series of Liberty Global 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, Liberty Global's directors may be required to make a decision that is adverse to the holders of one series of Liberty Global common stock. Under the principles of Delaware law referred to above, if you are a holder of a disadvantaged series of Liberty Global common stock, you may not be able to challenge such a decision if Liberty Global's board of directors is disinterested and adequately informed with respect to its decision and acts in good faith and in the honest belief that it is acting in the best interests of all of its stockholders.

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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This joint proxy statement/ prospectus includes certain forward-looking statements regarding market potential, future financial performance and other matters. These statements may be made directly in this joint proxy statement/ prospectus or they may be made a part of this joint proxy statement/ prospectus by appearing in other documents filed with the Securities and Exchange Commission and incorporated by reference in this joint proxy statement/ prospectus. These statements may include statements regarding the period following completion of the mergers.

In some cases, you can identify these statements by our use of forward-looking words such as may, will, should, anticipate, estimate, expect, plan, believe, predict, potential, intend and other terms of similar substance in connection with any discussion of the mergers or the future operations or financial performance of LMI, UGC or Liberty Global. You should be aware that these statements and any other forward-looking statements in these documents only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Many of these risks, uncertainties and assumptions are beyond the control of LMI, UGC and Liberty Global, and may cause actual results and performance to differ materially from our expectations. In addition to the risks and uncertainties set forth under the heading **Risk Factors** on page 59 of this joint proxy statement/ prospectus, important factors that could cause our actual results to be materially different from our expectations include, among others:

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 which 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;

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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 and statements of expectations, plans and intent herein are subject to a greater degree of risk than similar statements regarding certain other industries.

We caution you not to place undue reliance on the forward-looking statements contained or incorporated by reference in this joint proxy statement/ prospectus. These forward-looking statements speak only as of the date on which the statements were made. Except as may be required by law, none of LMI, UGC or Liberty Global has any obligation to update or alter these forward-looking statements, whether as a result of new information, future events or otherwise.

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**THE COMPANIES**

**Liberty Media International, Inc.**

LMI, through its subsidiaries and affiliates, provides broadband distribution services and video programming services to subscribers in Europe, Japan, Latin America and Australia. LMI's broadband distribution services consist primarily of cable television distribution, Internet access, telephony, and, in selected markets, direct-to-home satellite distribution. LMI's broadband distribution services include those of UGC, which is a controlled subsidiary of LMI. LMI's programming networks create original programming and also distribute programming obtained from international and home-country content providers. LMI's principal assets include interests in UGC, LMI/ Sumisho Super Media, LLC, Jupiter Programming Co., Ltd. (JPC), Liberty Cablevision of Puerto Rico Ltd. and Pramer S.C.A. LMI is a Delaware corporation, formed on March 16, 2004, in connection with the proposed spin off of Liberty's International Group business segment. LMI's assets and businesses, including its controlling stake in UGC, consist largely of those which Liberty attributed to its International Group business segment prior to the spin off. On June 7, 2004, Liberty distributed to its stockholders, on a pro rata basis, all of the outstanding shares of LMI's common stock, and LMI became an independent, publicly traded company.

LMI's principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112. LMI's main telephone number is (720) 875-5800, and its company website is [www.libertymediainternational.com](http://www.libertymediainternational.com).

***Additional Information***

For more information regarding LMI, please see Appendix A: Information Concerning Liberty Media International, Inc. to this joint proxy statement/ prospectus, including, without limitation:

Part 1: Description of Business;

Part 2: Certain Relationships and Related Party Transactions;

Part 3: Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk; and

Part 4: Historical Financial Statements of LMI and its Significant Affiliates and Acquirees; which is incorporated herein in its entirety by this reference.

**UnitedGlobalCom, Inc.**

UGC is an international broadband communications provider of video, voice and broadband Internet access services with operations in 16 countries outside the United States. As of December 31, 2004, UGC's networks passed approximately 15.9 million homes and serve approximately 8.7 million video subscribers, 0.8 million voice subscribers and 1.4 million broadband Internet access subscribers. UGC Europe, Inc., UGC's largest consolidated operation, is a pan-European broadband communications company, providing video, high-speed Internet access and telephone services through its broadband networks in 13 European countries. UGC's primary Latin American operation, VTR GlobalCom S.A., provides video, high-speed Internet access and telephone services primarily to residential customers in Chile. UGC also has consolidated operations in Brazil and Peru; an approximate 19% interest in SBS Broadcasting S.A., a European commercial television and radio broadcasting company; an approximate 34% interest in Austar United Communications Ltd., a pay-TV provider in Australia; and an indirect investment in Telenet Group Holding N.V., a broadband communications provider in Belgium.

UGC is a Delaware corporation, formed on February 5, 2001 in connection with a substantial investment by Liberty. UGC's principal executive offices are located at 4643 South Ulster Street, Suite 1300, Denver, Colorado 80237. UGC's main telephone number is (303) 770-4001, and its company website is [www.unitedglobal.com](http://www.unitedglobal.com).

***Additional Information***

For more information regarding UGC, please see Additional Information Where You Can Find More Information.

**Liberty Global, Inc.**

Liberty Global, a wholly owned subsidiary of LMI, is a Delaware corporation, formed on January 13, 2005, for the purpose of effecting the mergers. Upon consummation of the mergers, Liberty Global will become the parent

company

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of LMI and UGC. The businesses of Liberty Global will reflect the combination of the businesses currently conducted by each of LMI and UGC.

To date, Liberty Global has not conducted any activities other than those incident to its formation and the matters contemplated by the merger agreement, including the formation of each of LMI Merger Sub and UGC Merger Sub as wholly owned subsidiaries and the preparation of applicable filings under the securities laws.

Liberty Global's principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112. Liberty Global's main telephone number is (720) 875-5800. Following the mergers, Liberty Global's corporate website will be located at *www.lgi.com*.

***Additional Information***

For more information regarding the business of Liberty Global following the mergers, please see the description of LMI's business included in Appendix A: Information Concerning Liberty Media International, Inc. Part 1: Description of Business, which includes a description of UGC's business. In addition, please carefully read the information provided in this joint proxy statement/prospectus, including the information provided under the heading Liberty Global Unaudited Condensed Pro Forma Combined Financial Statements.

**Cheetah Acquisition Corp. (LMI Merger Sub)**

LMI Merger Sub, a wholly owned subsidiary of Liberty Global, is a Delaware corporation, formed on January 13, 2005, for the purpose of effecting the merger with LMI. LMI Merger Sub has not conducted any activities other than those incident to its formation and the matters contemplated by the merger agreement, including the preparation of applicable filings under the securities laws.

LMI Merger Sub's principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112.

LMI Merger Sub's main telephone number is (720) 875-5800.

**Tiger Global Acquisition Corp. (UGC Merger Sub)**

UGC Merger Sub, a wholly owned subsidiary of Liberty Global, is a Delaware corporation, formed on January 13, 2005, for the purpose of effecting the merger with UGC. UGC Merger Sub has not conducted any activities other than those incident to its formation and the matters contemplated by the merger agreement, including the preparation of applicable filings under the securities laws.

UGC Merger Sub's principal executive offices are located at 12300 Liberty Boulevard, Englewood, Colorado 80112.

UGC Merger Sub's main telephone number is (720) 875-5800.



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**THE STOCKHOLDERS MEETINGS AND PROXY SOLICITATIONS**

|                               | <b>LMI Annual Meeting</b>  | <b>UGC Special Meeting</b>   |
|-------------------------------|--|--|
| <b>Time, Place &amp; Date</b> | <p>[     ], 2005<br/>                     [   ] a.m., local time<br/>                     [     ]<br/>                     [     ]<br/>                     [   ], Colorado [     ]</p> <p>The LMI annual meeting may be adjourned or postponed to another date, time or place for proper purposes, including for the purpose of soliciting additional proxies.</p>  | <p>[     ], 2005<br/>                     [   ] a.m., local time<br/>                     [     ]<br/>                     [     ]<br/>                     [   ], Colorado [     ]</p> <p>The UGC special meeting may be adjourned or postponed to another date, time or place for proper purposes, including for the purpose of soliciting additional proxies.</p> |
| <b>Purposes</b>               | <p>To consider and vote on the merger proposal;</p> <p>To consider and vote on the election of David E. Rapley and Larry E. Romrell as Class I directors pursuant to the LMI election of directors proposal;</p> <p>To consider and vote on the LMI incentive plan proposal;</p> <p>To consider and vote on the LMI auditors ratification proposal; and</p> <p>To transact other business as may properly be presented at the LMI annual meeting or any postponements or adjournments thereof.</p> <p>At the present time, LMI knows of no other matters that will be presented at the LMI annual meeting.</p> | <p>To consider and vote on the merger proposal; and</p> <p>To transact other business as may properly be presented at the UGC special meeting or any postponements or adjournments thereof.</p> <p>At the present time, UGC knows of no other matters that will be presented at the UGC special meeting.</p>   |
| <b>Quorum</b>                 | <p>In order to carry on the business of the applicable stockholders meeting, a quorum of stockholders must be present. This means that at least a majority of the aggregate voting power represented by the common stock or UGC common stock, as the the applicable stockholders may determine, must be present at the meeting. For purposes of determining a quorum, your shares will be included as represented at the meeting whether you abstain from voting. In addition, if a broker, who is a record holder of shares, indicates on not have discretionary authority</p>                                | <p>At the present time, UGC knows of no other matters that will be presented at the UGC special meeting.</p>   |

form of proxy that the broker does to vote those shares on any proposal, or if those shares are voted in circumstances in which proxy authority is defective or has been withheld with respect to any proposal, these shares (which we refer to as broker non-votes ) will be treated as present for purposes of determining the presence of a quorum. See Voting Procedures for Shares Held in Street Name Effect of Broker Non-Votes below.

**Record Date**

5:00 p.m., New York City time, on  
May 3, 2005

5:00 p.m., New York City time, on  
May 3, 2005

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**LMI Annual Meeting**

**UGC Special Meeting**

**Shares Entitled to Vote**

Holders of LMI Series A common stock and LMI Series B common stock, as recorded in LMI's stock register on the record date for the LMI annual meeting, may vote at the LMI annual meeting or at any adjournment or postponement thereof.

Holders of UGC Class A common stock, UGC Class B common stock and UGC Class C common stock, as recorded in UGC's stock register on the record date for the UGC special meeting, may vote at the UGC special meeting or at any adjournment of postponement thereof.

**Votes You Have**

At the LMI annual meeting, holders of LMI Series A common stock will have one vote for each share of LMI Series A common stock that LMI's records show they owned as of 5:00 p.m., New York City time, on the record date for the LMI annual meeting.

At the UGC special meeting, holders of UGC Class A common stock will have one vote for each share of UGC Class A common stock that UGC's records show they owned as of 5:00 p.m., New York City time, on the record date for the UGC special meeting.

At the LMI annual meeting, holders of LMI Series B common stock will have ten votes for each share of LMI Series B common stock that LMI's records show they owned as of 5:00 p.m., New York City time, on the record date for the LMI annual meeting.

At the UGC special meeting, holders of UGC Class B common stock and holders of UGC Class C common stock will have ten votes for each share of UGC Class B common stock or UGC Class C common stock that UGC's records show they owned as of 5:00 p.m., New York City time, on the record date for the UGC special meeting.

**Recommendation of the Board of Directors**

*Merger Proposal.* LMI's board of directors has unanimously approved the merger agreement and determined that the merger agreement and the transactions contemplated thereby, including the LMI merger, are advisable, fair to, and in the best interests of, LMI and its stockholders. Accordingly, LMI's board of directors recommends that LMI stockholders vote FOR the merger proposal.

*Merger Proposal.* UGC's board of directors, based upon the recommendation of the Special Committee, has unanimously determined that the UGC merger, on the terms and conditions set forth in the merger agreement and voting agreement, is fair to, and in the best interests of, UGC and its stockholders. Accordingly, UGC's board of directors recommends that UGC stockholders vote FOR the merger proposal.

*Annual Business Matter Proposals.* LMI's board of directors has also approved the annual business matter proposals and recommends that LMI

stockholders vote FOR each of the annual business matter proposals.

**Votes Required**

*Merger Proposal.* Approval of the merger proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the LMI Series A common stock and LMI Series B common stock outstanding as of the record date for

*Merger Proposal.* Approval of the merger proposal requires a vote of the holders of UGC common stock, with all classes voting together as a single class, that satisfies two criteria:

*statutory approval:* the affirmative

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**LMI Annual Meeting**

the LMI annual meeting, voting together as a single class.

A common stock and LMI Series B common stock outstanding as of the record date for the LMI annual meeting, voting together as a single class.

Pursuant to a voting agreement entered into between John C. Malone, the Chairman of the Board, Chief Executive Officer and President of LMI, and UGC, Mr. Malone has agreed to vote the shares of LMI Series A common stock and LMI Series B common stock owned by him or which he has the right to vote (representing, as of March 31, 2005, approximately 26.5% of the aggregate voting power of LMI) FOR the approval of the merger proposal. See The Transaction Agreements Voting Agreement.

The directors and executive officers of LMI (other than Mr. Malone), who together beneficially own shares of LMI common stock representing approximately 3.3% of LMI's aggregate voting power, as of March 31, 2005, have indicated to LMI that they intend to vote FOR the merger proposal at the LMI annual meeting.

*Annual Business Matter Proposals.* A plurality of the affirmative votes of the shares of LMI Series A common stock and LMI Series B common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Rapley and Romrell as Class I members of LMI's board of directors

**UGC Special Meeting**

vote of the holders of at least a majority of the aggregate voting power of the shares of UGC Class A common stock, UGC Class B common stock and UGC Class C common stock outstanding as of the record date for the UGC special meeting; and

*minority approval:* the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of UGC Class A common stock, UGC Class B common stock and UGC Class C common stock outstanding as of the record date for the UGC special meeting, exclusive of any shares beneficially owned by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC.

LMI, which beneficially owns shares of UGC common stock representing approximately 91% of the aggregate voting power of UGC, as of March 31, 2005, has agreed to vote, and to cause its subsidiaries to vote, such shares in favor of the approval of the merger proposal. See The Transaction Agreements Merger Agreement. Accordingly, the statutory approval is assured.

The directors and executive officers of UGC, who together beneficially own shares of UGC common stock representing less than 1% of UGC's aggregate voting power, as of March 31, 2005, have indicated to UGC that they intend to vote FOR the merger proposal at the UGC special meeting.

The directors and executive officers of LMI (including Mr. Malone), who

pursuant to the LMI election of directors proposal. This means that the two nominees will be elected if they receive more affirmative votes than any other person.

Approval of each of the LMI incentive plan proposal and the LMI auditors ratification proposal requires the affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI Series A

together beneficially own shares of UGC common stock representing less than 1% of UGC's aggregate voting power, as of March 31, 2005, have indicated to UGC that they intend to vote FOR the merger proposal at the UGC special meeting.

The votes of LMI and its wholly

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**LMI Annual Meeting**

**UGC Special Meeting**

common stock and LMI Series B common stock outstanding on the record date for the LMI annual meeting that are present, in person or by proxy, at the LMI annual meeting, voting together as a single class.

owned subsidiaries, the votes of UGC s directors and executive officers and the votes of LMI s directors and executive officers will not be counted toward the minority approval.

**Shares Outstanding**

As of March 31, 2005, an aggregate of 165,555,331 shares of LMI Series A common stock and 7,264,300 shares of LMI Series B common stock were outstanding and would have been entitled to vote at the LMI annual meeting if March 31, 2005 had been the record date for the LMI annual meeting.

As of March 31, 2005, an aggregate of 401,894,352 shares of UGC Class A common stock, 10,493,461 shares of UGC Class B common stock and 379,603,223 shares of UGC Class C common stock were outstanding and would have been entitled to vote at the UGC special meeting if March 31, 2005 had been the record date for the UGC special meeting.

**Numbers of Holders**

We expect there to be, as of the record date for the LMI annual meeting, approximately 3,330 record holders of LMI Series A common stock and approximately 160 record holders of LMI Series B common stock (which amounts do not include the number of stockholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder).

We expect there to be, as of the record date for the UGC special meeting, approximately 170 record holders of UGC Class A common stock, one record holder of UGC Class B common stock and four record holders of UGC Class C common stock (which amounts do not include the number of stockholders whose shares are held of record by banks, brokers or other nominees, but include each such institution as one holder).

**Voting Procedures for Record Holders**

Holders of record of LMI common stock record date for the applicable stock person thereat. Alternatively, they signing, dating and returning the pr with the mailing of this joint proxy voting by telephone or over the Inte revoked, shares of LMI common stock by a proxy submitted as described be applicable stockholders meeting will instructions on the proxy.

k or UGC common stock as of the holders meeting may vote in may give a proxy by completing, oxy card that is being included statement/ prospectus, or by rnet. Unless subsequently or UGC common stock represented low and received at or before the be voted in accordance with the mmended that you vote by proxy cable stockholders meeting. You le stockholders meeting. To should complete, sign, date and s instructions. esented before the applicable u choose as proxies will have e matters according to their best ise on your proxy.

**YOUR VOTE IS IMPORTANT.** It is reco even if you plan to attend the appli may change your vote at the applicab submit a written proxy by

mail, you mail the proxy in accordance  
with it

If any other matters are properly pr  
stockholders meeting, the persons yo  
discretion to vote or to act on thes  
judgment, unless you indicate otherw



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**LMI Annual Meeting**

**UGC Special Meeting**

If a proxy is signed and returned by an LMI record holder without indicating any voting instructions, the shares of LMI common stock represented by the proxy will be voted FOR the approval of the merger proposal and FOR the approval of each of the annual business matter proposals.

If a proxy is signed and returned by a UGC record holder without indicating any voting instructions, the shares of UGC common stock represented by the proxy will be voted FOR the approval of the merger proposal.

If a proxy is signed and returned by an LMI record holder and the LMI record holder indicates that it is abstaining from voting, the proxy will have the same effect as a vote

If a proxy is signed and returned by a UGC record holder and the UGC record holder indicates that it is abstaining from voting, the proxy will have the same effect as a vote AGAINST the merger proposal.

AGAINST the merger proposal, the LMI incentive plan proposal and the LMI auditors ratification proposal, but it will have no effect on the vote on the LMI election of directors proposal.

Failure of a UGC record holder to submit a proxy representing shares of UGC common stock or vote in person at the UGC special meeting will have the same effect as a vote AGAINST the merger proposal.

Failure of an LMI record holder to submit a proxy representing shares of LMI common stock or vote in person at the LMI annual meeting will have the same effect as a vote AGAINST the merger proposal but it will have no effect on the vote on any of the annual business matter proposals.

**Voting Procedures for Shares Held in Street Name**

*General.* If you hold your shares in the name of a broker, bank or other nominee, you should follow the instructions provided by your broker, bank or other nominee when voting your shares of LMI common stock or when granting or revoking a proxy.

*General.* If you hold your shares in the name of a broker, bank or other nominee, you should follow the instructions provided by your broker, bank or other nominee when voting your shares of UGC common stock or when granting or revoking a proxy.

*Effect of Broker Non-Votes.* Shares represented by broker non-votes will be deemed shares not entitled to

*Effect of Broker Non-Votes.* Shares represented by broker non-votes will be deemed shares not

vote and will not be included for purposes of determining the aggregate voting power and number of shares represented and entitled to vote on a particular proposal.

Broker non-votes will have the same effect as a vote AGAINST the merger proposal.

entitled to vote and will not be included for purposes of determining the aggregate voting power and number of shares represented and entitled to vote on a particular proposal.

Broker non-votes will have the same effect as a vote AGAINST the merger proposal.

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**LMI Annual Meeting**

**UGC Special Meeting**

Broker non-votes will have no effect on any of the annual business matter proposals.

**YOUR VOTE IS IMPORTANT.**

**YOUR VOTE IS IMPORTANT**

**Revoking a Proxy**

Before your proxy is voted, you may change your vote by telephone or over the Internet (if you originally voted by telephone or over the Internet), by voting in person at the LMI annual meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to EquiServe Trust Company, N.A., LMI/UGC Transaction, P.O. Box 8078, Edison, New Jersey 08818-8687. Any signed proxy revocation or new signed proxy must be received before the start of the LMI annual meeting.

Before your proxy is voted, you may change your vote by telephone or over the Internet (if you originally voted by telephone or over the Internet), by voting in person at the UGC special meeting or by delivering a signed proxy revocation or a new signed proxy with a later date to UnitedGlobalCom, Inc., c/o EquiServe Trust Company, N.A., LMI/UGC Transaction, P.O. Box 859208, Braintree, Massachusetts 02185. Any signed proxy revocation or new signed proxy must be received before the start of the UGC special meeting.

Your attendance at the LMI annual meeting will not, by itself, revoke your proxy.

Your attendance at the UGC special meeting will not, by itself, revoke your proxy.

If your shares are held in an account by a broker, bank or other nominee, you should contact your broker, bank or other nominee to change your vote.

**Solicitation of Proxies**

The accompanying proxy for the LMI annual meeting is being solicited on behalf of LMI's board of directors. In addition to this mailing, LMI's employees may solicit proxies personally or by telephone. LMI pays the cost of soliciting these proxies. LMI also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

The accompanying proxy for the UGC special meeting is being solicited on behalf of UGC's board of directors. In addition to this mailing, UGC's employees may solicit proxies personally or by telephone. UGC pays the cost of soliciting these proxies. UGC also reimburses brokers and other nominees for their expenses in sending these materials to you and getting your voting instructions.

In addition to this mailing, LMI has hired D.F. King & Co. to solicit proxies on LMI's behalf. D.F. King & Co. will receive \$7,000 from LMI as compensation for such services, plus expenses.

In addition to this mailing, UGC has hired D.F. King & Co. to solicit proxies on UGC's behalf. D.F. King & Co. will receive approximately \$11,500 from UGC as compensation for such services, plus expenses.

**Auditors**

KPMG LLP serves as LMI's independent auditors. Representatives of KPMG plan to attend the LMI annual meeting and

KPMG LLP serves as UGC's independent auditors. Representatives of KPMG plan to attend the UGC special meeting

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**LMI Annual Meeting**

will be available to answer questions. A representative of KPMG is expected to attend the LMI annual meeting with the opportunity to make a statement and/or respond to appropriate questions from LMI stockholders at the LMI annual meeting.

**UGC Special Meeting**

and will be available to answer questions. A representative of KPMG is expected to attend the UGC special meeting with the opportunity to make a statement and/or respond to appropriate questions from UGC stockholders at the UGC special meeting.

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**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGERS**

The following is a summary of the U.S. federal income tax consequences of the LMI merger and the UGC merger that are expected to be material to U.S. holders and non-U.S. holders (each as defined below) of LMI common stock and UGC common stock, subject to the limitations below. This summary is limited to the U.S. federal income tax consequences of the mergers and does not purport to be a complete technical analysis or listing of all potential tax consequences that may be relevant to holders of LMI common stock or UGC common stock. It is not intended to be, nor should it be construed as being, legal or tax advice. For this reason, holders of LMI common stock and UGC common stock should consult their own tax advisors concerning the tax consequences of the mergers. Further, this summary does not address any tax consequences arising under the income or other tax laws of any state, local or foreign jurisdiction or any tax treaties.

This summary is based upon the Internal Revenue Code of 1986, as amended (referred to as the Code), the applicable regulations of the U.S. Treasury Department, and publicly available judicial and administrative rulings and decisions, all as in effect on the date of this joint proxy statement/ prospectus, any of which may change, possibly retroactively. Any changes could affect the continuing validity of this summary.

For purposes of this summary, the term U.S. holder means a beneficial owner of shares of LMI common stock or UGC common stock, as applicable, who is:

an individual who is a citizen of the United States or who is resident in the United States for U.S. federal income tax purposes;

a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States, any state thereof or the District of Columbia;

a trust, if either (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

For purposes of this summary, the term non-U.S. holder means a beneficial owner of shares of LMI common stock or UGC common stock, as applicable, that is not treated as a partnership for U.S. federal income tax purposes, and that is not a U.S. holder. For purposes of this summary, an entity that is classified as a partnership for U.S. federal income tax purposes is neither a U.S. holder nor a non-U.S. holder. The U.S. federal income tax treatment of a partnership and its partners depends upon a variety of factors, including the activities of the partnership and the partners. Holders of LMI common stock or UGC common stock that are partnerships for U.S. federal income tax purposes, and partners in any such partnership, should consult their tax advisors concerning the U.S. federal income tax consequences of the mergers.

This summary assumes that LMI stockholders and UGC stockholders hold their shares of LMI common stock and UGC common stock, respectively, as capital assets within the meaning of Section 1221 of the Code at the effective time of the mergers. Further, this summary does not address all aspects of U.S. federal income taxation that may be relevant to LMI stockholders or UGC stockholders in light of their particular circumstances or that may be applicable to them if they are subject to special treatment under the U.S. federal income tax laws, including if an LMI stockholder or UGC stockholder is:

a financial institution or thrift;

a tax-exempt organization;

an S corporation or other pass-through entity or an owner thereof;

an entity taxable as a partnership for U.S. federal income tax purposes or an owner thereof;

an insurance company;

a mutual fund;

a dealer in stocks and securities or foreign currencies;

a trader or an investor in LMI common stock or UGC common stock who elects the mark-to-market method of accounting for such stock;

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a stockholder who received LMI common stock or UGC common stock from the exercise of employee stock options, from an employee stock purchase plan or otherwise as compensation;

a stockholder who received LMI common stock or UGC common stock from a tax-qualified retirement plan, individual retirement account or other qualified savings account;

a U.S. holder that has a functional currency other than the U.S. dollar;

an expatriate or former long-term resident of the United States; or

a stockholder who holds LMI common stock or UGC common stock as part of a hedge against currency risk, straddle or a constructive sale or conversion transaction or other risk reduction or integrated investment transaction.

Further, this summary does not address the U.S. federal income tax consequences to any holder that actually or constructively owns both LMI common stock and UGC common stock, or to any holder of options or warrants to purchase LMI, UGC or Liberty Global common stock.

**This summary does not address tax consequences that may vary with, or are contingent upon, individual circumstances, including without limitation alternative minimum tax consequences, and does not address tax consequences to persons who exercise appraisal rights. Moreover, it does not address any non-income tax or any foreign, state or local tax consequences of the mergers. Tax matters are very complicated, and the tax consequences of the mergers to LMI stockholders and UGC stockholders will depend upon the facts of the individual stockholder's particular situation. Accordingly, LMI stockholders and UGC stockholders are strongly urged to consult with a tax advisor to determine the particular federal, state, local or foreign income or other tax consequences of the mergers.**

**Tax Opinions**

It is a non-waivable condition of the LMI merger that LMI receive an opinion from Baker Botts L.L.P., counsel to LMI, or another nationally recognized law firm, dated the closing date, to the effect that, for U.S. federal income tax purposes:

the LMI merger will qualify as a reorganization within the meaning of Section 368(a) of the Code;

no gain or loss will be recognized by Liberty Global, LMI, any wholly owned subsidiary of LMI that owns shares of UGC common stock, or UGC as a result of the LMI merger or the UGC merger; and

no gain or loss will be recognized by the stockholders of LMI with respect to shares of LMI common stock converted solely into Liberty Global common stock as a result of the LMI merger.

It is a non-waivable condition of the UGC merger that UGC receive an opinion from a nationally recognized law firm, dated the closing date, to the effect that, for U.S. federal income tax purposes:

when viewed as a collective whole with the LMI merger, the conversion of shares of UGC common stock into shares of Liberty Global Series A common stock that is effected pursuant to the UGC merger will qualify as an exchange within the meaning of Section 351 of the Code;

no gain or loss will be recognized by Liberty Global or UGC as a result of the UGC merger; and

no gain or loss will be recognized by the stockholders of UGC with respect to shares of UGC common stock converted solely into Liberty Global Series A common stock pursuant to the UGC merger.

The merger agreement does not require that these opinions, which will be provided by Baker Botts L.L.P. and Holme Roberts & Owen LLP, address all of the material U.S. federal income tax consequences relating to the mergers.

These opinions will be based upon factual representations and covenants, including those contained in letters provided by Liberty Global, LMI, UGC and/or others, and upon specified assumptions, and will assume that the mergers will be



completed according to the terms of the merger agreement and that there will be no material changes in existing facts or in law. Any inaccuracy or change in the representations, covenants or assumptions upon which the opinions are based could alter the conclusions reached in the opinions.

The opinions to be delivered by Baker Botts L.L.P. and by Holme Roberts & Owen LLP will neither bind the Internal Revenue Service nor preclude the Internal Revenue Service from challenging the conclusions set forth therein, nor preclude a court from adopting a contrary position. Neither Liberty Global, LMI nor UGC intends to obtain a ruling from the Internal Revenue Service regarding the tax consequences of the mergers.

**Table of Contents****U.S. Federal Income Tax Consequences of the LMI Merger**

LMI has received the opinion of Baker Botts L.L.P. that the discussion under this heading, U.S. Federal Income Tax Consequences of the LMI Merger, is the opinion of Baker Botts L.L.P. with respect to the U.S. federal income tax consequences of the LMI merger that are expected to be material to U.S. holders and non-U.S. holders of LMI common stock. This opinion is subject to the qualifications, assumptions and limitations referenced and summarized above under the heading Material United States Federal Income Tax Consequences of the Mergers, and those summarized below under this heading, and is conditioned upon the accuracy of the representations, covenants and assumptions upon which the opinion is based. The opinion of Baker Botts L.L.P. concerning this discussion will not be binding upon the Internal Revenue Service or a court, and there can be no assurance that the Internal Revenue Service or a court will not take a contrary position. The opinion is included as an exhibit to the registration statement on Form S-4 of Liberty Global being filed in connection with the mergers. This discussion assumes that the opinion of Baker Botts L.L.P., described above under Tax Opinions, will be delivered to LMI on the closing date of the LMI merger and that the representations, covenants, and assumptions upon which such opinion is based will be accurate. Any inaccuracy in any of the representations, covenants and assumptions upon which either of the opinions of Baker Botts L.L.P. are based could alter the conclusions described below under this heading, U.S. Federal Income Tax Consequences of the LMI Merger.

***U.S. Federal Income Tax Consequences to LMI***

LMI will not recognize gain or loss as a result of the LMI merger.

***U.S. Federal Income Tax Consequences to U.S. Holders and Non-U.S. Holders of LMI Common Stock***

U.S. holders and non-U.S. holders of LMI common stock will not recognize gain or loss as a result of the receipt of Liberty Global common stock in the LMI merger in exchange for their LMI common stock. The aggregate tax basis of the Liberty Global common stock received by an LMI stockholder will be equal to the LMI stockholder's aggregate tax basis of the LMI common stock surrendered, and the holding period of the Liberty Global common stock received by an LMI stockholder will include the LMI stockholder's holding period of the LMI common stock surrendered. Holders of LMI common stock will be required to file with their U.S. federal income tax return for the taxable year in which the LMI merger occurs a statement setting forth certain facts relating to the LMI merger, including their tax basis in the shares of LMI common stock exchanged in the LMI merger and the number of shares of Liberty Global common stock received in the LMI merger. Holders of LMI common stock must also keep a permanent record of such facts relating to the exchange of their LMI common stock for Liberty Global common stock pursuant to LMI merger.

**U.S. Federal Income Tax Consequences of the UGC Merger**

UGC has received the opinion of Holme Roberts & Owen LLP that the discussion under this heading, U.S. Federal Income Tax Consequences of the UGC Merger, is the opinion of Holme Roberts & Owen LLP with respect to the U.S. federal income tax consequences of the UGC merger that are expected to be material to U.S. holders and non-U.S. holders of UGC common stock. This opinion is subject to the qualifications, assumptions and limitations referenced and summarized above under the heading Material United States Federal Income Tax Consequences of the Mergers and those summarized below under this heading, and is conditioned upon the accuracy of the representations, covenants and assumptions upon which such opinion is based. The opinion of Holme Roberts & Owen LLP concerning this discussion will not be binding upon the Internal Revenue Service or a court, and there can be no assurance that the Internal Revenue Service or a court will not take a contrary position. The opinion is included as an exhibit to the registration statement on Form S-4 of Liberty Global being filed in connection with the mergers. This discussion assumes that the opinion of Holme Roberts & Owen LLP, described above under Tax Opinions, will be delivered to UGC on the closing date of the UGC merger and that the representations, covenants, and assumptions upon which such opinion is based will be accurate. Any inaccuracy in any of the representations, covenants and assumptions upon which either of the opinions of Holme Roberts & Owen LLP are based could alter the conclusions described below under this heading, U.S. Federal Income Tax Consequences of the UGC Merger.

***U.S. Federal Income Tax Consequences to UGC***

UGC will not recognize gain or loss as a result of the UGC merger.

***U.S. Federal Income Tax Consequences to U.S. Holders of UGC Common Stock***

*U.S. Holders of UGC Common Stock Who Receive Only Liberty Global Common Stock (and Cash for Fractional Shares) in the UGC Merger.* A U.S. holder of UGC common stock who receives solely Liberty Global common stock

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in exchange for UGC common stock surrendered in the UGC merger (and, as applicable, cash for fractional shares) will not recognize gain or loss as a result of the receipt of Liberty Global common stock, except to the extent that cash is received instead of fractional shares. The aggregate tax basis of the Liberty Global common stock received by a UGC stockholder will be equal to the UGC stockholder's aggregate tax basis of the UGC common stock surrendered, excluding the tax basis allocated to fractional shares, and the holding period of the Liberty Global common stock received by a UGC stockholder will include the UGC stockholder's holding period of the UGC common stock surrendered. If a UGC stockholder receives cash instead of fractional shares, the UGC stockholder will be treated as recognizing capital gain or loss equal to the difference between the amount of cash received with respect to the fractional shares and the ratable portion of the UGC stockholder's tax basis in the UGC common stock which is surrendered in the UGC merger and which is allocated to such fractional shares. Any capital gain or loss will be long-term capital gain or loss if the UGC stockholder's holding period in such UGC common stock is more than one year as of the closing date of the UGC merger. For non-corporate U.S. holders, long-term capital gain generally will be taxed at a maximum U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limits.

*U.S. Holders of UGC Common Stock Who Receive Cash and Liberty Global Common Stock in the UGC Merger.* A U.S. holder of UGC common stock who receives a combination of Liberty Global common stock and cash in exchange for UGC common stock surrendered in the UGC merger will recognize capital gain, but not capital loss, realized in the UGC merger (subject to the discussion below under Possible Dividend Treatment). The amount of capital gain recognized by the U.S. holder of UGC common stock generally will be calculated separately for each block of UGC common stock surrendered (i.e., shares of UGC common stock that have the same tax basis and holding period) and will be equal to the lesser of:

the amount of gain realized in respect of such block, i.e., the excess (if any) of (x) the sum of the amount of cash and the fair market value of the Liberty Global common stock received that is allocable to such block of UGC common stock surrendered in the UGC merger over (y) the tax basis of such block; and

the amount of cash that is allocable to such block.

For this purpose, the cash and the Liberty Global common stock received by a UGC stockholder generally will be allocated among the blocks of UGC common stock surrendered in the UGC merger proportionately based upon the fair market values of such blocks of UGC common stock. Because no loss will be recognized, a UGC stockholder will not be able to offset gain recognized on one block of UGC common stock by loss attributable to another block. The capital gain, if any, attributable to a block of UGC common stock will be long-term capital gain if the UGC stockholder's holding period in the block of UGC common stock is more than one year as of the closing date of the UGC merger. For non-corporate U.S. holders, long-term capital gain generally will be taxed at a maximum U.S. federal income tax rate of 15%.

The aggregate tax basis of the Liberty Global common stock received by a U.S. holder of UGC common stock in the UGC merger will be equal to the UGC stockholder's aggregate tax basis in the UGC common stock surrendered, decreased by the amount of cash received by the UGC stockholder and increased by the amount of gain recognized by the UGC stockholder in connection with the UGC merger. A UGC stockholder's holding period for the Liberty Global common stock received in exchange for UGC common stock will include the holding period for the UGC common stock surrendered. U.S. holders of multiple blocks of UGC common stock are urged to consult their tax advisors concerning the determination of the tax basis and holding period for the Liberty Global common stock received in the UGC merger.

*U.S. Holders of UGC Common Stock Who Receive Only Cash in the UGC Merger.* A U.S. holder of UGC common stock who receives solely cash in exchange for the holder's UGC common stock surrendered in the UGC merger will recognize capital gain or loss equal to the difference between the amount of cash received by the UGC stockholder and the holder's tax basis of the UGC common stock surrendered (subject to the discussion below under Possible Dividend Treatment). Gain or loss must be calculated separately for each block of UGC common stock (i.e., shares of UGC common stock that have the same tax basis and holding period). Such gain or loss will be long-term capital gain or loss if the UGC stockholder's holding period in such UGC common stock is more than one year as of the closing

date of the UGC merger. For non-corporate U.S. holders, long-term capital gain generally will be taxed at a maximum U.S. federal income tax rate of 15%. The deductibility of capital losses is subject to limits.

*Possible Dividend Treatment.* It is possible that cash received in the UGC merger as a result of a cash election could be subject to taxation under the rules of Section 304 of the Code. If Section 304 were to apply, holders of UGC common stock who receive both Liberty Global common stock and cash pursuant to a cash election in the UGC merger would be treated as having exchanged a portion of their UGC common stock for Liberty Global common stock in a tax-free exchange under Section 351(a) of the Code (to the extent that they receive Liberty Global common stock

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in the UGC merger), and as having exchanged the remaining portion of their shares of UGC common stock for cash. The cash received would be treated as a distribution that, depending upon the circumstances of the holder of the UGC common stock and the earnings and profits of Liberty Global and UGC, would be taxable either as a dividend or as a payment received in exchange for the UGC common stock. There is some uncertainty about whether Section 304 applies in the circumstances of the UGC merger because its application depends upon the determination of certain factual matters relating to the actual and constructive ownership by the UGC stockholders (other than LMI and its wholly owned subsidiaries) of the stock of UGC immediately prior to the completion of the UGC merger and to the actual and constructive ownership by the UGC stockholders (other than LMI and its wholly owned subsidiaries) of the stock of Liberty Global immediately following the completion of the mergers. Based upon information currently available, we cannot provide any assurance that the rules of Section 304 will not apply to a UGC stockholder who makes a cash election. If Section 304 were to apply, and if the cash were taxable as a dividend (generally taxable at a maximum rate of 15% for U.S. federal income tax purposes), the U.S. holder of the UGC common stock would not be able to reduce the amount taxable by the amount of the U.S. holder's tax basis allocable to the portion of the shares of UGC common stock exchanged for cash. Dividend treatment would generally not apply to holders of UGC common stock (i) that receive solely cash in exchange for their UGC common stock and that do not actually or constructively own any stock of Liberty Global or UGC (under specified attribution rules) after giving effect to the UGC merger, or (ii) that receive solely Liberty Global common stock in exchange for their UGC common stock.

*Reporting Requirements.* Holders of UGC common stock will be required to file with their U.S. federal income tax return for the taxable year in which the UGC merger occurs a statement setting forth certain facts relating to the UGC merger, including their tax basis in the shares of UGC common stock exchanged in the UGC merger and the number of shares of Liberty Global common stock and the amount of cash received in the UGC merger. Holders of UGC common stock must also keep a permanent record of such facts relating to the exchange of their UGC common stock for Liberty Global common stock and/or cash pursuant to UGC merger.

*U.S. Federal Income Tax Consequences to Non-U.S. Holders of UGC Common Stock*

*Scope of Discussion With Respect to Non-U.S. Holders.* As previously stated, this summary does not address the U.S. federal income tax consequences to stockholders that are subject to special rules. With respect to a UGC stockholder who is a non-U.S. holder, this summary also does not apply to (1) a UGC stockholder that holds its UGC common stock in connection with a trade or business conducted in the United States or in connection with an office or fixed place of business located in the United States; or (2) a UGC stockholder that is affected by the provisions of an income tax treaty to which the United States is a party. This summary also does not address currency exchange issues. **Any non-U.S. holder that may be subject to any of these tax rules is urged to consult his or her own tax advisor to determine the tax consequences to him or her of the UGC merger.**

The tax consequences to non-U.S. holders of UGC common stock could be materially different if UGC or Liberty Global are or have previously been a U.S. real property holding corporation as of the closing date of the UGC merger, and certain exemptions do not apply. We do not believe that UGC or Liberty Global will be or will have previously been a U.S. real property holding corporation as of the closing date of the UGC merger, and therefore, such tax consequences are not discussed below.

*Non-U.S. Holders of UGC Common Stock Who Receive Only Liberty Global Common Stock (and Cash for Fractional Shares) in the UGC Merger.* A non-U.S. holder of UGC common stock that receives only Liberty Global common stock (and, as applicable, cash for fractional shares) in exchange for UGC common stock surrendered in the UGC merger will not be subject to U.S. federal income or withholding tax, except with respect to any cash received instead of fractional shares. A non-U.S. holder of UGC common stock generally will not be subject to U.S. federal income or withholding tax with respect to cash received instead of fractional shares unless such UGC stockholder is an individual that is present in the United States for 183 days or more in the taxable year of the UGC merger and certain other conditions are met.

*Non-U.S. Holders of UGC Common Stock Who Elect to Receive Cash.* A non-U.S. holder of UGC common stock that receives either a combination of Liberty Global common stock and cash in the UGC merger, or solely cash in the UGC merger will not be subject to U.S. federal income tax with respect to any shares of Liberty Global common stock

or cash received in the UGC merger unless either (i) such non-U.S. holder is an individual that is present in the United States for 183 days or more in the taxable year of UGC merger and certain other conditions are met or (ii) the cash received in the UGC merger is taxable as a dividend as described above under U.S. Federal Income Tax Consequences to U.S. Holders of UGC Common Stock Possible Dividend Treatment.

If a non-U.S. holder of UGC common stock is an individual that is present in the United States for 183 days or more in the taxable year of UGC merger, and if certain other conditions are met, such non-U.S. holder will be subject to

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U.S. federal income tax at a rate of 30% (unless otherwise reduced by treaty) on all or part of the gain attributable to the UGC common stock. For a non-U.S. holder of UGC common stock who receives both Liberty Global common stock and cash in the UGC merger, the gain subject to tax will be calculated as described under U.S. Federal Income Tax Consequences to U.S. Holders of UGC Common Stock U.S. Holders of UGC Common Stock Who Receive Cash and Liberty Global Common Stock in the UGC Merger. For a non-U.S. holder of UGC common stock who receives only cash in the UGC merger, the gain subject to tax will be calculated as described under U.S. Federal Income Tax Consequences to U.S. Holders of UGC Common Stock U.S. Holders of UGC Common Stock Who Receive Only Cash in the UGC Merger.

If the receipt of cash is taxable as a dividend, a non-U.S. holder of UGC common stock will be subject to U.S. federal income tax at a rate of 30%, unless the tax rate is reduced by treaty. In addition, to ensure payment of the income tax, Liberty Global or any exchange agent is required to withhold tax at a rate of 30% (or a lower rate as may be specified by treaty) on dividend payments to non-U.S. holders. Amounts withheld are creditable against the U.S. federal income taxes owing by non-U.S. holders. Taxes that have been withheld are not refundable by Liberty Global or the exchange agent, although the taxpayer may be able to claim a refund from the Internal Revenue Service if the amounts withheld exceed the tax due. **Due to the uncertainties about whether all or any portion of the cash payments will be taxable as a dividend, Liberty Global or the exchange agent expects to withhold tax at the required rate on all payments of cash to non-U.S. holders of UGC common stock (other than payments for fractional shares).**

*Backup Withholding and Information Reporting*

In general, information reporting requirements will apply with respect to cash received pursuant to a cash election or in lieu of fractional shares by a U.S. holder in connection with the UGC merger. **Due to the uncertainty about the application of Section 304 of the Code, Liberty Global expects to report cash payments made to UGC stockholders pursuant to a cash election as a dividend to the extent that Liberty Global or UGC has current or accumulated earnings and profits.** This information reporting obligation, however, does not apply with respect to certain U.S. holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts, and individual retirement accounts. In the event that a U.S. holder subject to the reporting requirements fails to supply its correct taxpayer identification number in the manner required by applicable law or is notified by the Internal Revenue Service that it has failed to properly report payments of interest and dividends, a backup withholding tax (at a rate that is currently 28%) generally will be imposed on the amount of the cash received pursuant to a cash election or in lieu of fractional shares. A U.S. holder may generally credit any amounts withheld under the backup withholding provisions against its U.S. federal income tax liability, and, as a result, may entitle the U.S. holder to a refund, provided the required information is furnished to the Internal Revenue Service. Such amounts, once withheld, are not refundable by Liberty Global or the exchange agent.

In general, information and backup withholding will apply with respect to cash received by a non-U.S. holder in connection with the UGC merger unless the non-U.S. holder certifies as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.



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**THE TRANSACTION AGREEMENTS**

**Merger Agreement**

*The following is a summary of the material terms of the merger agreement. This summary may not contain all of the information that is important to you. It is qualified in its entirety by reference to the merger agreement, a copy of which is included as Appendix B and is incorporated herein by reference. You should read the merger agreement because it, and not this document, is the legal document that governs the terms of the mergers and will give you a more complete understanding of the mergers.*

***Structure of the Mergers***

To effect the combination of LMI and UGC, a new company, Liberty Global, Inc. was formed with two wholly owned subsidiaries, Cheetah Acquisition Corp., which we refer to as LMI Merger Sub, and Tiger Global Acquisition Corp., which we refer to as UGC Merger Sub. At the effective time of the mergers:

LMI Merger Sub will merge with and into LMI, and LMI will be the surviving corporation in that merger; and

UGC Merger Sub will merge with and into UGC, and UGC will be the surviving corporation in that merger.

As a result of the mergers described above and the conversion and exchange of securities described below, LMI will become a direct wholly owned subsidiary of Liberty Global and UGC will become an indirect wholly owned subsidiary of Liberty Global. Following the mergers, Liberty Global will own directly 46.5% of the common stock of UGC and indirectly through Liberty Global's wholly owned subsidiary LMI 53.5% of the common stock of UGC (based upon outstanding UGC share information as of March 31, 2005). See Conversion of Outstanding Shares of Common Stock of LMI and UGC below.

***Effective Time of the Mergers and Timing of Closing***

LMI and UGC will file certificates of merger with the Delaware Secretary of State on the second business day after the day on which the last condition to completing the merger is satisfied or, where permissible, waived or at such other time as LMI and UGC may agree. The LMI merger and the UGC merger will become effective at the time and on the date on which those documents are filed, or later if the parties so agree and specify in those documents, provided that the LMI merger and the UGC merger will become effective at the same time. The time that the LMI merger and the UGC merger become effective is referred to as the effective time of the mergers.

We cannot assure you when, or if, all the conditions to completion of the mergers will be satisfied or, where permissible, waived. See Conditions to Completion of the Mergers. The parties intend to complete the mergers as promptly as practicable, subject to receipt of the requisite approvals of the LMI stockholders and the UGC stockholders to the merger proposal.

***Conversion of Outstanding Shares of Common Stock of LMI and UGC***

**LMI.** At the effective time of the LMI merger:

each share of LMI Series A common stock issued and outstanding immediately prior to the effective time of the mergers will be converted into the right to receive one share of Liberty Global Series A common stock;

each share of LMI Series B common stock issued and outstanding immediately prior to the effective time of the mergers will be converted into the right to receive one share of Liberty Global Series B common stock; and

each share of common stock of LMI Merger Sub issued and outstanding immediately prior to the effective time of the mergers will be converted into one share of common stock of LMI as the surviving corporation in the LMI merger.

**UGC.** At the effective time of the UGC merger:

each share of UGC common stock (other than shares of UGC common stock held by LMI or any of its wholly owned subsidiaries) will be converted into the right to receive 0.2155 of a share of Liberty Global Series A common stock plus cash in lieu of any fractional shares, *unless* the holder thereof has validly made and not validly revoked an election to have such share of UGC common stock converted into \$9.58 in cash, subject to certain limitations described in UGC Stockholders Making Stock and Cash Elections; Proration below;

each share of UGC common stock held by LMI or any of its wholly owned subsidiaries will be converted into the right to receive one share of the same class of common stock of UGC; and

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the issued and outstanding shares of common stock of UGC Merger Sub will be converted into a number of shares of each class of common stock of UGC, as the surviving corporation in the UGC merger, that is identical to the number of shares of the same class of UGC common stock that are converted into the right to receive Liberty Global Series A common stock and/or cash in the UGC merger.

For information on how holders of UGC common stock can elect to receive Liberty Global Series A common stock and/or cash in the UGC merger, see UGC Stockholders Making Stock and Cash Elections; Proration below. The rights pertaining to Liberty Global common stock will be the same in all material respects as the rights pertaining to LMI common stock, because the restated certificate of incorporation and bylaws of Liberty Global in effect immediately after the completion of the mergers will be substantially similar to the current restated certificate of incorporation and bylaws of LMI. For a description of Liberty Global's common stock, see Description of Liberty Global Capital Stock, and for a description of the comparative rights of holders of LMI common stock, UGC common stock and Liberty Global common stock, see Comparison of the Rights of Stockholders of LMI, UGC and Liberty Global.

If, before the effective time of the mergers, the outstanding shares of LMI common stock and/or UGC common stock are changed into a different number of shares as a result of a stock split, stock dividend or other reclassification or exchange, an appropriate adjustment will be made to the consideration to be received in the mergers to provide the holders of LMI and UGC common stock the same economic effect as contemplated by the merger agreement.

***UGC Stockholders Making Stock and Cash Elections; Proration***

UGC stockholders are receiving a form of election with this joint proxy statement/ prospectus for making cash and stock elections. Any UGC stockholder who became a UGC stockholder after the record date for the UGC special meeting, or who did not otherwise receive a form of election, should contact the exchange agent to obtain a form of election. UGC stockholders who vote against the merger proposal are still entitled to make elections with respect to their shares. The form of election allows holders of UGC common stock to make cash or stock elections for some or all of their shares of UGC common stock. If a holder or the holder's affiliates are the registered holders of shares of UGC common stock represented by more than one certificate or held in more than one account, the holder may also specify on the form of election how to allocate cash consideration, if any, among those shares of UGC common stock.

**Shares of UGC common stock as to which the holder has not made a valid election prior to the election deadline, including as a result of revocation, will be treated as though the holder made an election to receive the stock consideration for all shares with respect to which no valid election was made prior to the election deadline.**

LMI stockholders do not need to make an election since each outstanding share of LMI common stock will be converted into one share of the corresponding series of Liberty Global common stock, with no cash option available. The U.S. federal income tax consequences of the UGC merger to each UGC stockholder will depend upon whether the UGC stockholder receives cash or stock of Liberty Global, or a combination of cash and stock, in exchange for his or her shares of UGC common stock. However, at the time that a UGC stockholder is required to make a cash or stock election, the UGC stockholder will not know if, and to what extent, the proration procedures described below will change the mix of consideration that he or she will receive in the UGC merger. As a result of the proration, among other reasons, at the time that a UGC stockholder is required to make a cash or stock election, the UGC stockholder will not know the tax consequences to him or her with certainty. For more information regarding the tax consequences of the UGC merger to the UGC stockholders, please see Material United States Federal Income Tax Consequences of the Mergers U.S. Federal Income Tax Consequences of the UGC Merger.

*Exchange Agent.* EquiServe Trust Company N.A. will serve as the exchange agent for purposes of effecting the election and proration procedures.

*Election Deadline.* The election deadline will be 5:00 p.m., New York City time, on [ ] 2005. If the completion of the mergers is anticipated to occur more than four business days after [ ], 2005, LMI and UGC will publicly announce, by issuing a press release to the Dow Jones News Service by 9:00 a.m. on the business day immediately following the initial election deadline, the anticipated effective date of the mergers, which will not be earlier than the fourth business day after the date of the press release. The new election deadline will be 5:00 p.m., New York City time, on the second business day preceding the anticipated effective date of the mergers.

*Form of Election.* The form of election must be properly completed and signed and accompanied by certificates representing all of the shares of UGC common stock covered by the form of election, duly endorsed in blank or otherwise in a form acceptable for transfer on UGC's books (or appropriate evidence as to the loss, theft or destruction,

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appropriate evidence as to the ownership of that certificate by the claimant, and appropriate and customary indemnification, as described in the form of election).

In order to make a cash or stock election, the properly completed and signed form of election, together with the UGC stock certificates, must be actually received by the exchange agent at or prior to the election deadline in accordance with the instructions in the form of election.

If shares of UGC common stock are held in street name, to make an election the beneficial owner should contact his or her broker, bank or other nominee and follow their instructions as to how to make their election.

*Inability to Sell Shares as to which an Election is Made.* Stockholders who have made elections will be unable to sell their shares of UGC common stock after making the election, unless the election is properly revoked before the election deadline or the merger agreement is terminated.

*Election Revocation and Changes.* Generally, an election may be revoked or changed with respect to all or a portion of the shares of UGC common stock covered by the election by the holder who submitted the applicable form of election, but only by written notice received by the exchange agent prior to the election deadline. If an election is validly revoked, or the merger agreement is terminated, the exchange agent will promptly return the related stock certificates (or book-entry shares) to the stockholder who submitted them. UGC stockholders will not be entitled to revoke or change their elections following the election deadline. As a result, UGC stockholders who have made elections will be unable to revoke their elections or sell their shares of UGC common stock during the interval between the election deadline and the date of completion of the mergers.

Shares of UGC common stock as to which the holder has not made a valid election prior to the election deadline, including as a result of revocation, will be deemed non-electing shares. If it is determined that any purported cash election or stock election was not properly made, the purported election will be deemed to be of no force or effect and the holder making the purported election will be deemed not to have made an election for these purposes, unless a proper election is subsequently made on a timely basis.

*Non-Electing Holders.* UGC stockholders who make no election to receive cash consideration or stock consideration in the UGC merger, whose elections are not received by the exchange agent by the election deadline, or whose forms of election are improperly completed or are not signed or not accompanied by the shares of UGC common stock to which they relate will be deemed not to have made an election. UGC stockholders not making an election in respect of their shares of UGC common stock will be deemed to have made an election to receive only Liberty Global common stock, and not to receive any cash (other than cash in lieu of fractional shares), for the shares of UGC common stock held by such stockholder.

*Proration Procedures.* UGC stockholders should be aware that cash elections they make may be subject to the proration procedures provided in the merger agreement. Regardless of the cash or stock elections made by UGC stockholders, these procedures are designed to ensure that the total cash consideration paid (exclusive of cash paid for fractional shares) represents no more than 20% of the aggregate value of the merger consideration payable to UGC stockholders (other than those stockholders who are Permitted Holders under UGC's indenture with respect to the UGC convertible notes). Accordingly, the proration procedures described below will be triggered if the number of shares of UGC common stock as to which a valid cash election is made and not revoked exceeds a number we refer to as the UGC share threshold number. Under the merger agreement, the UGC share threshold number is equal to (rounded down to the nearest whole number):

$$\begin{array}{l} \text{Last sales price of a share of LMI} \\ \text{Series A common stock on the trading day} \\ \text{immediately prior to the effective time of} \\ \text{the mergers} \end{array} \times 0.2155 \times \begin{array}{l} \text{Outstanding shares of UGC Class A stock (other} \\ \text{than shares held by Permitted Holders)} \\ \text{immediately prior to the effective time of the} \\ \text{mergers} \end{array}$$

$$38.32 + \left( \text{Last sales price of a share of LMI Series A common stock on the trading} \right. \\ \left. \text{day immediately prior to the effective time of the mergers} \right) \times 0.2155$$

If the total number of shares of UGC common stock as to which cash elections are validly made and not validly revoked is greater than the UGC share threshold number, then each UGC stockholder who validly made and did not validly revoke a cash election will be entitled to receive \$9.58 in cash per share with respect to that number of shares of UGC common stock equal to (rounded down to the nearest whole number):

|  |   |  |
|--|---|--|
| Number of shares of UGC common stock held<br>by such stockholder as to which a cash<br>election is validly made and not validly<br>revoked | × | UGC share threshold number<br><br>Total number of shares of UGC common stock as to which<br>cash elections are validly made and not validly revoked. |
|--|---|--|

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The remaining number of such UGC stockholder's shares as to which such stockholder validly makes and does not validly revoke a cash election will be converted, on a per share basis, into the right to receive 0.2155 of a share of Liberty Global Series A common stock.

By way of illustration, assume that the last sales price of a share of LMI Series A common stock on the day immediately prior to the closing date is \$41.31, the number of outstanding shares of UGC Class A common stock (other than shares held by Permitted Holders) is 364,913,349 (based upon available share information for UGC as of March 31, 2005) and the number of shares of UGC common stock as to which a valid cash election is made and not revoked is 100,000,000, which exceeds the UGC share threshold number of 68,793,125.

In this example, if you own 500 shares of UGC common stock and make a valid cash election with respect to all of those shares, then you would receive \$3,285.94 in cash for 343 of your shares of UGC common stock and 33 shares of Liberty Global Series A common stock for your remaining shares of UGC common stock (plus cash in lieu of any fractional share interest).

Each UGC stockholder who properly elected, or was deemed to have elected, to receive the stock consideration will receive 0.2155 of a share of Liberty Global Series A common stock for each share of UGC common stock with respect to which such election was made or deemed to have been made, plus cash in lieu of any fractional share interest.

**None of Liberty Global, LMI or UGC is making any recommendation as to whether UGC stockholders should elect to receive cash consideration or stock consideration in the UGC merger. UGC stockholders must make their own decision with respect to such election.**

**No guarantee can be made that a UGC stockholder will receive the amount of cash consideration it elects. As a result of the proration procedures, UGC stockholders may receive cash consideration in amounts that are different from the amounts they elect to receive. Because the value of the stock consideration and cash consideration may differ, UGC stockholders may receive consideration having an aggregate value less than what they elected to receive.**

### ***Conversion of Shares; Exchange of Certificates; Dividends; Withholding***

*Conversion and Exchange of Shares.* The conversion of LMI shares and shares of UGC common stock into the right to receive the applicable merger consideration will occur automatically at the effective time of the mergers. The exchange agent will, as soon as reasonably practicable after the effective time of the mergers, exchange certificates (or book-entry shares) representing shares of LMI and UGC common stock for the applicable merger consideration to be received in the mergers pursuant to the terms of the merger agreement.

*Letter of Transmittal.* Promptly after the completion of the mergers, the exchange agent will send a letter of transmittal to those persons who were record holders of shares of LMI common stock at the effective time of the LMI merger and record holders of shares of UGC common stock at the effective time of the UGC merger who have not previously submitted a form of election (or validly revoked their form of election and did not resubmit a form of election by the election deadline) or have not properly surrendered shares of UGC common stock to the exchange agent. This mailing will contain instructions on how to surrender shares of LMI common stock and shares of UGC common stock in exchange for the applicable merger consideration the holder is entitled to receive under the merger agreement. When you deliver your LMI stock certificates or UGC stock certificates to the exchange agent along with a properly executed letter of transmittal and any other required documents, your stock certificates will be canceled.

**Except for UGC stockholders who submit their UGC stock certificates with the form of election to the exchange agent, do not submit your LMI or UGC shares for exchange until you receive the transmittal instructions and letter of transmittal from the exchange agent.**

If a certificate for LMI common stock or UGC common stock has been lost, stolen or destroyed, the exchange agent will issue the applicable merger consideration properly payable under the merger agreement upon compliance by the applicable stockholder with the replacement requirements established by the exchange agent.

*Fractional Shares.* You will not receive fractional shares of Liberty Global common stock in connection with the UGC merger. Instead, each holder of shares of UGC common stock exchanged in the UGC merger who would otherwise have received a fraction of a share of Liberty Global common stock will receive cash in an amount

determined by multiplying the fractional interest to which such holder would otherwise be entitled by the closing price for a share of LMI Series A common stock as reported on the Nasdaq National Market on the last trading day immediately preceding the effective time of the mergers. Because each share of LMI common stock is being exchanged for a share of the corresponding series of Liberty Global common stock on a one-for-one basis, no fractional shares will arise as a result of that exchange.



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*Dividends and Distributions.* Until LMI shares or UGC shares are surrendered for exchange, any dividends or other distributions declared after the effective time of the mergers with respect to shares of Liberty Global common stock into which shares of LMI common stock or shares of UGC common stock may have been converted will accrue but will not be paid. Liberty Global will pay to former LMI stockholders and UGC stockholders any unpaid dividends or other distributions, without interest, only after they have duly surrendered their LMI shares or UGC shares. After the effective time of the mergers, there will be no transfers on the stock transfer books of LMI or UGC of any shares of LMI common stock or shares of UGC common stock, respectively. If LMI shares or UGC shares are presented for transfer after the completion of the mergers, they will be cancelled and exchanged for the applicable merger consideration into which such shares have been converted pursuant to the merger agreement.

*Withholding.* Liberty Global and the exchange agent will be entitled to deduct and withhold from the merger consideration payable to any LMI stockholder or UGC stockholder the amounts it is required to deduct and withhold under the Code or any provision of any state, local or foreign tax law. If Liberty Global or the exchange agent withholds any amounts, these amounts will be treated for all purposes as having been paid to the stockholders from whom they were withheld. See Material United States Federal Income Tax Consequences of the Mergers.

***Treatment of Stock Options and Other Awards***

*LMI Stock Options and Other Awards.* Each outstanding option to purchase shares of LMI common stock will be converted into an option to purchase the same number of shares of the corresponding series of Liberty Global common stock at an exercise price per share equal to the exercise price per share of the LMI common stock subject to the option immediately prior to the effective time of the mergers and will continue to be governed by its applicable terms. Each outstanding stock appreciation right, if any, with respect to shares of any series of LMI common stock outstanding immediately prior to the effective time of the mergers will be converted into a stock appreciation right with respect to the same number of shares of the corresponding series of Liberty Global common stock as such converted LMI stock appreciation right, at an exercise price or base price per stock appreciation right equal to the exercise or base price of such converted LMI stock appreciation right immediately prior to the effective time of the mergers. In addition, each outstanding restricted share of LMI common stock outstanding immediately prior to the effective time of the mergers will be converted into one restricted share of the corresponding series of Liberty Global common stock, and will remain subject to the same restrictions applicable to such restricted share of LMI common stock as in effect immediately prior to the effective time of the mergers.

*UGC Stock Options and Other Awards.* Each outstanding option to purchase shares of UGC common stock will be converted into an option to purchase the number of shares of Liberty Global Series A common stock determined by multiplying the number of UGC common shares subject to the option immediately prior to the effective time of the mergers by 0.2155 and rounding the resulting number down to the nearest whole number. The exercise price per share of UGC common stock for each of the converted UGC options will be the exercise price per share of UGC common stock applicable to that option immediately prior to the effective time of the mergers divided by 0.2155, rounded up to the nearest whole cent. The UGC converted options will generally have the same terms and conditions as were applicable under the UGC option plan pursuant to which such option was granted. Each outstanding stock appreciation right with respect to shares of UGC common stock immediately prior to the effective time of the mergers will be converted into a stock appreciation right with respect to that number of shares of Liberty Global Series A common stock equal to the number of shares of UGC common stock that were subject to such converted UGC stock appreciation right immediately prior to the effective time of the mergers multiplied by 0.2155, rounded down to the nearest whole number. The exercise or base price per stock appreciation right of the related converted UGC stock appreciation right will be equal to:

in the case of a UGC stock appreciation right issued in tandem with, and at the same base or exercise price as, a UGC option, the base or exercise price per share of the related converted UGC option; and

in the case of a free standing UGC stock appreciation right or a UGC stock appreciation right issued in tandem with, and at a different base or exercise price as, a UGC option, the amount determined by dividing the base or exercise price per share of such UGC stock appreciation right immediately prior to the effective time of the

mergers by 0.2155, rounded up to the nearest whole cent.

In addition, each outstanding restricted share of UGC common stock will be converted into 0.2155 of a restricted share of Liberty Global Series A common stock, with the total number of shares for each holder rounded down to the nearest whole number, and will remain subject to the same restrictions applicable to such restricted share of UGC common stock as in effect immediately prior to the effective time of the mergers.

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***Conditions to Completion of the Mergers***

*Conditions to Each Company's Obligation to Effect the Mergers.* The obligations of LMI and UGC to complete the mergers are subject to the satisfaction or, if applicable, waiver of the following conditions:

the approval by LMI stockholders and UGC stockholders, respectively, of the merger agreement and the LMI merger and UGC merger, respectively;

the approval of the merger agreement and the UGC merger by the holders of a majority of the aggregate voting power of the outstanding shares of UGC common stock entitled to vote at the UGC special meeting, exclusive of any shares of UGC common stock beneficially owned by LMI, Liberty or any of their respective subsidiaries or any of the executive officers or directors of LMI, Liberty or UGC, which condition we refer to as the minority approval and which condition is non-waivable;

the declaration of effectiveness of the registration statement of Liberty Global of which this document is a part by the Securities and Exchange Commission and the absence of any stop order or proceedings seeking a stop order or suspension of effectiveness with respect to the registration statement;

the absence of any order, injunction, statute, rule or regulation prohibiting the consummation of the mergers or making such consummation illegal, or permitting such consummation subject to any condition that would have a material adverse effect on UGC or LMI or the ability of either UGC or LMI to consummate the mergers;

the receipt by LMI and Liberty Global of a written opinion of Skadden, Arps, Slate, Meagher & Flom LLP or another nationally recognized law firm that, for U.S. federal income tax purposes, provided that the spin off of LMI by Liberty would otherwise have qualified as a tax-free distribution under Section 355 of the Code, the mergers should not cause such spin off to fail to qualify as a tax-free distribution to Liberty under Section 355(e) of the Code, which condition is non-waivable;

the approval for listing on the Nasdaq National Market of the shares of Liberty Global common stock to be issued in the mergers, subject only to official notice of issuance; and

all authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods imposed by, any governmental entity necessary for the completion of the mergers having been filed, expired or been obtained, other than those where the failure to so file, expire or obtain would not be reasonably likely to have a material adverse effect on LMI or UGC or the ability of either LMI or UGC to consummate the mergers.

*Additional Conditions to Each Company's Obligations.* The obligations of each of LMI and UGC to complete the mergers are subject to the following additional conditions, unless waived by the other party:

the performance by the other party in all material respects of its agreements and covenants contained in the merger agreement required to be performed at or before the effective time of the mergers;

as a condition to LMI's obligations, UGC's representations and warranties contained in the merger agreement must:

if specifically qualified by reference to a material adverse effect on UGC or UGC's ability to complete the mergers, be true and correct, and

if not so qualified, be true and correct except where the failure to be so true and correct would not have a material adverse effect on UGC or UGC's ability to complete the mergers, except for UGC's representations and warranties relating to its capitalization, which must be true and correct in all material respects, in each case, on the closing date (except to the extent any such representations or warranties speak only as of a specified earlier date, in which case, as of that earlier date);

as a condition to UGC's obligations, LMI's representations and warranties contained in the merger agreement must:

if specifically qualified by reference to a material adverse effect on LMI or LMI's ability to complete the mergers, be true and correct, and

if not so qualified, be true and correct except where the failure to be so true and correct would not have a material adverse effect on LMI or LMI's ability to complete the mergers, except for:

LMI's representations and warranties relating to its capitalization, which must be true and correct in all material respects, and

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LMI's representation and warranty that, except as disclosed in its Exchange Act filings prior to January 17, 2005, since September 30, 2004 there has not been a material adverse change in the business, properties, operations or financial condition of LMI's Japanese businesses, taken as a whole, other than any such change arising out of or resulting from (1) general business or economic conditions in Japan or from general changes in or affecting the industries in which LMI's Japanese businesses operate (except to the extent any such change has a disproportionate impact on LMI's Japanese businesses), (2) any changes in applicable generally accepted accounting principles that affect generally entities such as the Japanese businesses or (3) the conduct of, or failure to conduct or successfully complete, any public offering of shares by any of the Japanese businesses, which must be true and correct in all respects,

in each case, on the closing date (except to the extent any such representations or warranties speak only as of a specified earlier date, in which case, as of that earlier date);

as a condition to LMI's obligations, there being no action taken, statute, rule, regulation, order, judgment or decree proposed, enacted, promulgated, entered, issued, enforced or deemed applicable by any governmental entity that imposes or is reasonably likely to result in the imposition of material limitations on the ability of Liberty Global to effectively exercise full rights of ownership of the shares of LMI and UGC after the effective time of the mergers or makes the holding by Liberty Global of such shares illegal; and

the receipt of a written opinion of Baker Botts L.L.P. or another nationally recognized law firm, in the case of LMI, to the effect that the LMI merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and of a nationally recognized law firm, in the case of UGC, to the effect that, when integrated with the LMI merger, the conversion of shares of UGC common stock into shares of Liberty Global Series A common stock that is effected pursuant to the UGC merger will qualify as an exchange within the meaning of Section 351 of the Code, which condition is non-waivable by either party. Holme Roberts & Owen LLP is delivering this opinion to UGC.

In the merger agreement, the phrase "material adverse effect" on LMI or UGC means a material adverse effect on the business, properties, operations or financial condition of such entity and its subsidiaries, taken as a whole, other than any effect arising out of or resulting from:

any change in the trading prices of, in the case of LMI, the LMI Series A common stock and, in the case of UGC, UGC Class A common stock;

any changes in generally accepted accounting principles that affect entities such as LMI and UGC, as applicable;

general business or economic conditions or from general changes in or affecting the industries in areas in which LMI and its subsidiaries or UGC and its subsidiaries, respectively, operate, except to the extent that any such change has a disproportionate impact on LMI or UGC, respectively; or

the announcement of the merger agreement or the consummation of the mergers.

In the case of UGC, no material adverse effect can arise or result from any matter approved after the execution of the merger agreement that is an "approved matter." When we refer to an "approved matter," we mean any matter expressly approved by (1) the UGC board, provided that all of the directors of UGC who are also executive officers of LMI did not cast their votes against the approval of such matter, or (2) the executive committee of the UGC board, provided that at least one member of the executive committee of the UGC board is also an executive officer of LMI and all members of the executive committee who are also executive officers of LMI did not vote against such matter.

***Termination***

The merger agreement may be terminated and the mergers may be abandoned at any time prior to the effective time of the mergers by:

the mutual consent of UGC (with the approval of the Special Committee) and LMI;

either UGC (with the approval of the Special Committee) or LMI, if the mergers have not been consummated before September 30, 2005, unless the party seeking to terminate the agreement failed to fulfill its obligations in the merger agreement and such failure resulted in the mergers having not occurred by such date;

either UGC (with the approval of the Special Committee) or LMI, if the other party has breached any representation, warranty, covenant or agreement contained in the merger agreement, such that the conditions to the non-breaching party's obligation to consummate the mergers cannot be satisfied;

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either UGC (with the approval of the Special Committee) or LMI, if any order, decree or ruling that permanently restrains, enjoins or prohibits the mergers has been issued and becomes final and non-appealable;

LMI, if the board of directors of UGC (with the approval of the Special Committee) has withdrawn or modified in any manner adverse to LMI its recommendation to the UGC stockholders; or

either UGC (with the approval of the Special Committee) or LMI, if any of the stockholder approvals, which consist of the LMI stockholder approval, the UGC statutory approval and the UGC minority approval, has not been obtained at the applicable stockholders meeting.

In addition, had UGC not filed its Annual Report on Form 10-K with the Securities and Exchange Commission by May 15, 2005, LMI would have had the right to terminate the merger agreement (subject to certain exceptions). UGC filed this report on March 14, 2005.

Neither LMI nor UGC will be entitled to a termination fee upon any termination of the merger agreement.

***Covenants***

*Conduct of UGC Business Pending the Merger.* Under the merger agreement, UGC agreed that, prior to the completion of the mergers, UGC would, and would cause its subsidiaries (1) to, conduct its business in the ordinary and usual course of its business and consistent with past practices, (2) to submit to a vote of its board of directors (or executive committee thereof) or other governing body any matter of a nature or in an amount that, consistent with past practices or existing board or other governing body policies, would have been required, or would have been expected, to be submitted to such a vote prior to the date of the merger agreement, and (3) not to take specified actions, except that UGC is permitted to take any action:

that is permitted, required or specifically contemplated by the merger agreement;

as to approved matters;

as to matters contemplated in the most recent budget approved by the board of directors of UGC, provided that such budget is itself an approved matter; and

that is required by applicable law.

Subject to these exceptions, UGC agreed, and agreed to cause its subsidiaries, not to take the following specified actions:

amend its certificate of incorporation or bylaws or other governing instrument or document;

authorize for issuance, issue, grant, sell, deliver, dispose of, pledge or otherwise encumber any shares of its capital stock or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any shares of its capital stock or other equity or voting interests, or any rights, options, warrants, calls, commitments or other agreements of any character to purchase or acquire any shares of its capital stock or other equity or voting interests, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any shares of its capital stock or other equity or voting interests, subject to certain specified exceptions;

split, combine, subdivide or reclassify the outstanding shares of its capital stock or other equity or voting interests, or declare, set aside for payment or pay any dividend, or make any other actual constructive or deemed distribution in respect of any shares of its capital stock or other equity or voting interests, or otherwise make any payments to stockholders or owners of equity or voting interests in their capacity as such (other than dividends or distributions paid by any wholly owned subsidiary of UGC to UGC or another wholly owned subsidiary);

redeem, purchase or otherwise acquire, directly or indirectly, any outstanding shares of capital stock or other securities or equity or voting interests of UGC or any subsidiary of UGC;

make any other changes in its capital or ownership structure;

sell or grant a lien or restriction with respect to any stock, equity or partnership interest owned by it in any subsidiary of UGC;

enter into new employment agreements with, or increase compensation of, (a) any officer or director of UGC or (b) any member of senior executive management of any subsidiary of UGC whose annual income exceeds \$100,000 per annum, other than in the case of (b), as required by written agreements in effect on the date of the merger agreement;



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establish, amend or modify any of its employee benefit plans, except in the ordinary course of business, consistent with past practice and to the extent not material, and except to the extent required by applicable law or the existing terms of the plans or the provisions of the merger agreement;

make any capital expenditures that individually or in the aggregate are in excess of the amount provided for capital expenditures in the most recent capital budget for UGC and its subsidiaries approved by the board of directors of UGC, provided that such budget is itself an approved matter;

incur any material amount of indebtedness or guarantee any material amount of indebtedness other than in the ordinary course of business, provided that UGC may renew, extend or refinance existing indebtedness if there is no increase in interest rate or principal amount of indebtedness pursuant to such renewal, extension or refinancing;

acquire or agree to acquire in any manner any business or any corporation or otherwise acquire any assets that are material to UGC other than in the ordinary course of business;

make any material change in any accounting, financial reporting or tax practice or policy;

take any action that would reasonably be expected to result in any of the conditions to the mergers not to be satisfied; and

authorize or enter into any contract, agreement, commitment or arrangement to effect any of the foregoing.

*No Solicitation.* In addition, UGC has agreed that it will not, and it will not knowingly permit its officers, directors, representatives and agents to, directly or indirectly, (1) take any action to solicit, initiate or knowingly encourage the submission of any offer or proposal concerning a tender offer, exchange offer, merger, share exchange, recapitalization, consolidation or other similar business combination, or a direct or indirect acquisition in any manner of a significant equity interest in, or a substantial portion of the assets of, UGC (each, an acquisition proposal) or (2) engage in discussions or negotiations with any person to facilitate an acquisition proposal. However, UGC may engage in discussions or negotiations with, and furnish nonpublic information or access to, any person in response to an unsolicited acquisition proposal, if (A) it has complied, prior to such response, with the foregoing non-solicitation covenant and (B) the UGC board determines in good faith after consultation with counsel that it is necessary to do so in order to discharge its fiduciary duties under applicable law. UGC must notify LMI of, and keep it informed of any material developments with respect to, any acquisition proposal.

*Conduct of LMI Pending the Mergers.* In the merger agreement, LMI agreed that, during the period before completion of the mergers, it would not declare, make or pay any dividend or distribution in respect of its capital stock (other than in shares of LMI common stock) or take any other action that would reasonably be expected to result in any of the conditions to the mergers not being fulfilled.

*Additional Covenants.* Each of LMI and UGC agreed to duly call, give notice of, convene and hold, as soon as reasonably practicable after the date of the merger agreement, a meeting of such entity's stockholders for the purpose of considering and voting upon the merger agreement, and, at such meeting, each of the board of directors of LMI and UGC will, except as required by the fiduciary duties of such board, recommend to its stockholders the approval of the merger agreement and the applicable merger.

In the merger agreement, LMI and UGC agreed to use their commercially reasonable efforts to take all action and to do all things necessary, proper or advisable under applicable laws to consummate the mergers, including the use of commercially reasonable efforts to, among other things:

prepare and file with the Securities and Exchange Commission this joint proxy statement/ prospectus, the registration statement of which it is a part and the required Schedule 13E-3 transaction statement and seek to have such filings cleared and/or declared effective, as applicable, by the Securities and Exchange Commission as soon as reasonably practicable after filing;

cause the shares of Liberty Global common stock issuable in the mergers (and the shares of Liberty Global common stock reserved for issuance with respect to LMI and UGC options, stock appreciation rights and restricted stock) to be eligible for quotation on the Nasdaq National Market prior to the effective time of the mergers;

cause any injunctions or restraining orders to be lifted; and

obtain all necessary or appropriate consents, waivers or approvals of third parties or any governmental entity in connection with the mergers.

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UGC and LMI agreed that, after the effective time of the mergers, each of them will indemnify its present and former directors and officers, and any person serving at the request of UGC or LMI, as applicable, as a director or officer of another entity, against all liabilities incurred by any such person in his or her capacity as a director or officer in connection with any action arising out of the fact that such person was a director or officer of UGC or LMI, as applicable, and pertaining to any matter existing at or prior to the effective time of the mergers, to the same extent as such persons are currently indemnified by UGC or LMI, as applicable. In addition, the merger agreement provides that all rights to indemnification or advancement of expenses currently existing in the organizational documents of UGC or LMI in favor of such officers and directors and persons serving at the request of UGC or LMI, as applicable, as a director or officer of another entity, will continue in force for no less than six years following January 17, 2005, the date on which the merger agreement was signed.

LMI, which beneficially owns shares of UGC common stock representing approximately 91% of the aggregate voting power of UGC, as of March 31, 2005, agreed to vote, and to cause its subsidiaries to vote, such shares in favor of the approval of the merger agreement and the UGC merger.

***Representations and Warranties***

The merger agreement contains customary and substantially reciprocal representations and warranties by each of LMI and UGC relating to, among other things:

corporate organization and qualification;

authorization and validity of the merger agreement, absence of conflicts and board approval of the merger agreement;

capital structure;

documents filed with the Securities and Exchange Commission and financial statements included in those documents;

information supplied in connection with this joint proxy statement/ prospectus, the registration statement of which it is a part and the Schedule 13E-3 transaction statement;

absence of material breaches of organizational documents, laws or agreements as a result of the mergers;

absence of certain changes or events since September 30, 2004;

legal proceedings;

compliance with applicable laws;

tax and employee matters;

brokers and finders;

opinions of financial advisors; and

the stockholder vote required.

At the date of this joint proxy statement/ prospectus, each of LMI and UGC believes that the commencement of the class action lawsuits described under Special Factors Class Action Lawsuits Relating to the UGC Merger will not result in the inability of LMI or UGC to bring down, as of the closing date, its representations and warranties relating to legal proceedings contained in the merger agreement, because the lawsuits are not reasonably anticipated to have a

material adverse effect, as such term is defined in the merger agreement, on LMI or UGC or on the ability of either of them to consummate the mergers.

***Amendment, Extension and Waiver***

LMI and UGC may amend the merger agreement by action taken or authorized by their respective boards of directors (in the case of UGC, with the approval of the Special Committee), at any time before or after the approval of the merger agreement and the applicable merger by the stockholders of LMI or UGC. After the stockholder approvals, no amendment may be made which by law requires further approval by those stockholders, unless LMI and/or UGC obtain that further approval. All amendments to the merger agreement must be in writing signed by all of the parties thereto.

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***Fees and Expenses***

Whether or not the mergers are completed, all costs and expenses incurred in connection with the merger agreement and the mergers will be paid by the party incurring the expense, except that all expenses and fees incurred in connection with the printing and mailing of this joint proxy statement/ prospectus, the registration statement of which it is a part and the Schedule 13E-3 transaction statement will be shared equally by LMI and UGC.

**Voting Agreement**

*The following is a summary of the material terms of the voting agreement. This summary may not contain all of the information that is important to you. It is qualified in its entirety by reference to the voting agreement, a copy of which is included as Appendix C and is incorporated herein by reference.*

The Special Committee made it a condition to UGC's execution of the merger agreement, and the board of directors of LMI requested, that John C. Malone enter into a voting agreement pursuant to which he would agree to vote certain of his shares of LMI common stock in favor of the merger agreement and the LMI merger. Accordingly, concurrently with the execution of the merger agreement, Mr. Malone entered into the voting agreement, dated as of January 17, 2005, with UGC, pursuant to which Mr. Malone agreed to vote the shares of LMI Series A common stock and LMI Series B common stock over which he possesses sole voting power, and, subject to his fiduciary duties as trustee, the shares of LMI Series A common stock and LMI Series B common stock held in two separate trusts of which Mr. Malone serves as the sole trustee, in favor of the adoption by LMI of the merger agreement and the approval of the LMI merger at any meeting of LMI stockholders at which the merger agreement and the LMI merger are submitted for a vote of LMI stockholders (or pursuant to written consent). The voting agreement also covers shares of LMI common stock acquired by Mr. Malone (including upon exercise of stock options) after January 17, 2005.

The voting agreement restricts Mr. Malone's ability to transfer any of the shares owned by him or any options to purchase shares, unless, among other things, he retains the right to vote such shares or the applicable transferee enters into an agreement with UGC having the same obligations and restrictions as the voting agreement. The voting agreement also provides that Mr. Malone will not grant any proxies or power of attorney or enter into a voting agreement or other arrangement relating to the matters covered by the voting agreement with respect to any of these shares or options to acquire such shares or deposit any of these shares or options to acquire such shares into a voting trust.

The Voting Agreement will terminate upon the first to occur of the closing of the transactions contemplated by the merger agreement and the termination of the merger agreement in accordance with its terms.

**Table of Contents****MANAGEMENT OF LIBERTY GLOBAL****Directors and Executive Officers**

The following table sets forth certain information concerning the persons who have agreed to serve as Liberty Global's directors and executive officers immediately following the mergers, including a five year employment history and any directorships held in public companies. The board of directors of Liberty Global will select members of LMI's and UGC's management teams to serve as the remaining executive officers of Liberty Global immediately following the mergers.

| <b>Name</b>                               | <b>Positions</b>   |
|---|--|
| John C. Malone<br>Born March 7, 1941      | Chairman of the Board and a director of Liberty Global. Mr. Malone has served as President, Chief Executive Officer, Chairman of the Board and a director of LMI since March 2004. Mr. Malone has served as a director of UGC and its predecessors since November 1999. Mr. Malone has served as Chairman of the Board of Liberty since 1990. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc. from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of Tele-Communications, Inc., the former parent company of Liberty (TCI), from November 1996 to March 1999 and as Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is also a director of The Bank of New York, Cablevision Systems Corporation and Liberty.   |
| Michael T. Fries<br>Born February 6, 1963 | Chief Executive Officer, President and a director of Liberty Global. Mr. Fries has served as Chief Executive Officer of UGC since January 2004. Mr. Fries has served as a director of UGC and its predecessors since November 1999 and as President of UGC and its predecessors since September 1998. He also served as Chief Operating Officer of UGC and its predecessors from September 1998 to January 2004. In addition, he serves or has served as an officer and/or director of various direct and indirect subsidiaries and affiliates of UGC, including as a member of the UPC Supervisory Board from September 1998 until September 2003 and as Chairman thereof from February 1999 until September 2003, a member of the Priority Telecom Supervisory Board since November 2000 and as Chairman thereof since March 2003 and as a director of Austar United Communications Limited since June 1999. He served as Chairman of Austar United from June 1999 to April 2003. Mr. Fries has been with UGC and its predecessors since 1990. |
| John P. Cole, Jr<br>Born January 12, 1930 | A director of Liberty Global. Mr. Cole has served as a director of UGC and its predecessors since March 1998. Mr. Cole served as a member of the UPC Supervisory Board from February 1999 to September 2003. Mr. Cole is a founder of the Washington, D.C. law firm of Cole, Raywid and Braverman, which specializes in all aspects of telecommunications and media law.   |
| John W. Dick<br>Born January 9, 1938      | A director of Liberty Global. Mr. Dick has served as a director of UGC since March 2003. Mr. Dick served as a member of the UPC Supervisory Board from May 2001 to September 2003 and as a director of UGC Europe from September 2003 to January 2004. He is the non-executive Chairman and a director of Hooper Industries Group, a privately held U.K. group consisting of: Hooper and Co (Coachbuilders) Ltd. (building   |

special/bodied Rolls Royce and Bentley motorcars) and Hooper Industries (China) (providing industrial products and components to Europe and the U.S.). Until 2002, Hooper Industries Group also held Metrocab UK (manufacturing London taxicabs) and Moscab (a joint venture with the Moscow city government, producing left-hand drive Metrocabs for Russia). Mr. Dick has held his positions with Hooper Industries Group since 1984. Mr. Dick is also a director of Austar United.

Paul A. Gould  
Born September 27, 1945

A director of Liberty Global. Mr. Gould has served as a director of UGC since January 2004. Mr. Gould has served as Managing Director of Allen & Company L.L.C., an investment banking services company, and has been associated with Allen & Company and its affiliates for more than the last five years. Mr. Gould is also a director of Ampco-Pittsburgh Corporation and Liberty.

David E. Rapley  
Born June 22, 1941

A director of Liberty Global. Mr. Rapley has served as a director of LMI since May 2004. Mr. Rapley served as Executive Vice President Engineering of VECO Corp. Alaska from January 1998 to December 2001. Mr. Rapley is also a director of Liberty.

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| <b>Name</b>                                 | <b>Positions</b>  |
|---|---|
| Larry E. Romrell<br>Born December 30, 1939  | A director of Liberty Global. Mr. Romrell has served as a director of LMI since May 2004. Mr. Romrell served as an Executive Vice President of TCI from January 1994 to March 1999. Mr. Romrell also served, from December 1997 to March 1999, as Executive Vice President and Chief Executive Officer of TCI Business Alliance and Technology Co.; and from December 1997 to March 1999, as Senior Vice President of TCI Ventures Group. Mr. Romrell is also a director of Liberty.  |
| Gene W. Schneider<br>Born September 8, 1926 | A director of Liberty Global. Mr. Schneider has served as Chairman of the Board of UGC and its predecessors since 1989. Mr. Schneider also served as Chief Executive Officer of UGC and its predecessors from 1995 to January 2004. Mr. Schneider has served as an officer and/or director of various direct and indirect subsidiaries of UGC. In addition, from 1995 until 1999, Mr. Schneider served as a member of the UPC Supervisory Board, and an advisor to the Supervisory Board of UPC from 1999 until September 2003. Mr. Schneider has been with UGC and its predecessors since 1989. Mr. Schneider is also a director of Austar United. |
| J.C. Sparkman<br>Born September 12, 1932    | A director of Liberty Global. Mr. Sparkman has served as a director of LMI since November 2004. Mr. Sparkman served as the Chairman of the Board of Broadband Services, Inc. from September 1999 through December 2003. Mr. Sparkman is also a director of Shaw Communications Inc. and Universal Electronics, Inc.   |
| J. David Wargo<br>Born October 1, 1953      | A director of Liberty Global. Mr. Wargo has served as a director of LMI since May 2004. Mr. Wargo has served as the President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is also a director of OpenTV Corp. and Strayer Education, Inc.  |

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

During the past five years, none of the above persons was convicted in a criminal proceeding (excluding traffic violation or similar misdemeanors) or was a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

**Involvement in Certain Proceedings**

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

On March 29, 2002, United Australia/Pacific, Inc. (UAP), then a subsidiary of UGC, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States District Court for the Southern District of New York. UAP's reorganization closed on June 27, 2003, and UAP has since dissolved. Until February 11, 2002, Mr. Fries was a director and the President of UAP and, until November 14, 2001, Mr. Schneider was a director and Chief Executive Officer of UAP.

On December 3, 2002, United Pan-Europe Communications N.V. (UPC), now a subsidiary of UGC Europe, Inc., filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code, together with a



pre-negotiated plan of reorganization, in the United States District Court of the Southern District of New York. In conjunction with such filing, also on December 3, 2002, UPC commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law with the filing of a proposed plan of compulsory composition or the Akkoord with the Amsterdam Court (Rechtbank) under the Dutch Faillissementswet. These actions were completed on September 3, 2003, when UGC Europe acquired more than 99% of the stock of, and became a successor issuer to UPC. Messrs. Fries, Cole and Dick were Supervisory Directors of UPC and Mr. Schneider was an advisor to UPC's Supervisory Board. On January 12, 2004, UGC's predecessor (Old UGC), filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On November 10,

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2004, the U.S. Bankruptcy Court confirmed Old UGC's plan of reorganization and Old UGC emerged from the Chapter 11 proceedings on November 18, 2004. Until August 2003, Mr. Fries was the President of Old UGC, and Mr. Schneider was a director and Chief Executive Officer of Old UGC.

**Board Composition**

The board of directors of Liberty Global will initially consist of ten directors, divided among three classes. Liberty Global's Class I directors, whose term will expire at the annual meeting of its stockholders in 2006, are Gene W. Schneider, John P. Cole, Jr. and David E. Rapley. Liberty Global's Class II directors, whose term will expire at the annual meeting of its stockholders in 2007, are J. David Wargo, J.C. Sparkman and John W. Dick. Liberty Global's Class III directors, whose term will expire at the annual meeting of its stockholders in 2008, are John C. Malone, Paul A. Gould, Michael T. Fries and Larry Romrell. At each annual meeting of Liberty Global stockholders, the successors of that class of directors whose term(s) expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of Liberty Global stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified.

**Executive Compensation**

Liberty Global has not yet paid any compensation to any of its executive officers or any person expected to become an executive officer of Liberty Global. The form and amount of the compensation to be paid to each of Liberty Global's executive officers in any future period will be determined by the compensation committee of Liberty Global's board of directors.

For information concerning the compensation paid to the Chief Executive Officer of LMI and the four most highly compensated executive officers of LMI during the year ended December 31, 2004, see Management of LMI Executive Compensation.

For information concerning the compensation paid to, and any employment agreements with, the Chief Executive Officer of UGC and the four most highly compensated executive officers of UGC for the year ended December 31, 2004, see Item 11. Executive Compensation in UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004, which has been incorporated by reference in this joint proxy statement/ prospectus.

**Compensation of Directors**

In accordance with existing practice of LMI and UGC, it is expected that directors of Liberty Global who are also employees of Liberty Global will receive no additional compensation for their services as directors. Each non-employee director of Liberty Global will receive compensation for services as a director of Liberty Global and, if applicable, for services as a member of any board committee, as will be determined by Liberty Global's board of directors.

For information concerning the compensation policy for directors of LMI, see Management of LMI Director Compensation.

For information concerning the compensation policy for directors of UGC, see UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004, which has been incorporated by reference in this joint proxy statement/ prospectus.

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**MANAGEMENT OF LMI**

**Executive Officers and Directors**

The name and present principal occupation of each executive officer and director of LMI is set forth below. Unless otherwise noted, the business address for each person listed below is c/o Liberty Media International, Inc., 12300 Liberty Boulevard, Englewood, Colorado 80112. To the knowledge of LMI, all executive officers listed below are United States citizens, except for Miranda Curtis, who is a citizen of the United Kingdom.

| <b>Name</b>                              | <b>Positions</b>  |
|--|---|
| John C. Malone<br>Born March 7, 1941     | President, Chief Executive Officer, Chairman of the Board and a director of LMI since March 2004. Mr. Malone has served as Chairman of the Board of Liberty since 1990. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc. from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of TCI from November 1996 to March 1999 and as Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is also a director of The Bank of New York, Cablevision Systems Corporation, Liberty and UGC.  |
| Miranda Curtis<br>Born November 26, 1955 | Senior Vice President of LMI and President of its Asia division since March 2004. Ms. Curtis has served as a Senior Vice President of LMI's subsidiary, Liberty Media International Holdings, LLC (Old LMINT), since June 2004, and she served as President of Old LMINT and its predecessors from February 1999 to June 2004.  |
| Bernard G. Dvorak<br>Born April 19, 1960 | Senior Vice President and Controller of LMI since March 2004. Mr. Dvorak served as Senior Vice President, Chief Financial Officer and Treasurer of On Command Corporation, a subsidiary of Liberty, from July 2002 until May 17, 2004. Mr. Dvorak was the Chief Executive Officer and a member of the board of directors of Formus Communications, Inc., a provider of fixed wireless services in Europe, from September 2000 until June 2002, and, from April 1999 until September 2000, he served as Chief Financial Officer of Formus. Mr. Dvorak is a director of UGC.  |
| Graham Hollis<br>Born January 9, 1952    | Senior Vice President and Treasurer of LMI and Executive Vice President of its Asia division since March 2004. Mr. Hollis has served as a Senior Vice President of Old LMINT since June 2004, and he served as Executive Vice President and Chief Financial Officer of Old LMINT and its predecessors from May 1995 to June 2004.   |
| David B. Koff<br>Born December 26, 1958  | Senior Vice President of LMI and President of its Europe division since March 2004. Mr. Koff served as a Senior Vice President of Liberty from February 1998 through May 2004. Mr. Koff is a director of UGC.   |
| David J. Leonard<br>Born March 28, 1953  | Senior Vice President of LMI and President of its Latin America division since March 2004. Mr. Leonard served as the President of Liberty's Latin America Group, a subgroup of Liberty's International Group, from January 2004 through June 2004. From May 2002 through December 2003, Mr. Leonard was the founder and managing director of VLG Acquisition Corp., which owned interests in selected telecommunications companies in Latin America. From 1998 to 2002, Mr. Leonard was the founder, president and Chief Executive Officer of VeloCom Inc., a competitive local exchange carrier which provided wireless communications services throughout Brazil and Argentina. |

Elizabeth M. Markowski  
Born October 26, 1948

Senior Vice President, General Counsel and Secretary of LMI since March 2004. Ms. Markowski served as a Senior Vice President of Liberty from November 2000 through December 2004. Prior to joining Liberty, Ms. Markowski was a partner in the law firm of Baker Botts L.L.P. for more than five years.

Robert R. Bennett  
Born April 19, 1958  
*c/o Liberty Media Corporation*  
*12300 Liberty Boulevard*  
*Englewood, Colorado 80112*

A director of LMI and Vice-Chairman of the Board since March 2004. Mr. Bennett has served as President and Chief Executive Officer of Liberty since April 1997, and he held various other executive positions with Liberty since its inception in 1990. Mr. Bennett served as Executive Vice President of TCI from April 1997 to March 1999. Mr. Bennett is also a director of Liberty, OpenTV Corp. and UGC.

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| <b>Name</b>  | <b>Positions</b>  |
|--|---|
| <p>Donne F. Fisher<br/>                     Born May 24, 1938<br/> <i>Fisher Capital Partners, Ltd.</i><br/>                     5619 DTC Parkway,<br/>                     Suite 1150<br/>                     Greenwood Village,<br/>                     Colorado 80111</p> | <p>A director of LMI since May 2004. Mr. Fisher has served as President of Fisher Capital Partners, Ltd., a venture capital partnership, since December 1991. Mr. Fisher is also a director of General Communication, Inc. and Liberty.</p>   |
| <p>David E. Rapley<br/>                     Born June 22, 1941</p>   | <p>A director of LMI since May 2004. Mr. Rapley served as Executive Vice President Engineering of VECO Corp. Alaska from January 1998 to December 2001. Mr. Rapley is also a director of Liberty.</p>   |
| <p>M. LaVoy Robison<br/>                     Born September 6, 1935<br/> <i>The Anschutz Foundation</i><br/>                     1727 Tremont Place<br/>                     Denver, Colorado 80202</p>  | <p>A director of LMI since June 2004. Mr. Robison has served as an executive director and board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is also a director of Liberty.</p>   |
| <p>Larry E. Romrell<br/>                     Born December 30, 1939</p>  | <p>A director of LMI since May 2004. Mr. Romrell served as an Executive Vice President of TCI from January 1994 to March 1999. Mr. Romrell also served, from December 1997 to March 1999, as Executive Vice President and Chief Executive Officer of TCI Business Alliance and Technology Co.; and from December 1997 to March 1999, as Senior Vice President of TCI Ventures Group. Mr. Romrell is also a director of Liberty.</p> |
| <p>J. C. Sparkman<br/>                     Born September 12, 1931</p>   | <p>A director of LMI since November 2004. Mr. Sparkman served as the Chairman of the Board of Broadband Services, Inc. from September 1999 through December 2003. Mr. Sparkman is also a director of Shaw Communications Inc. and Universal Electronics, Inc.</p>   |
| <p>J. David Wargo<br/>                     Born October 1, 1953<br/> <i>Wargo &amp; Company, Inc.</i><br/>                     712 Fifth Avenue<br/>                     New York, New York 10019</p>  | <p>A director of LMI since May 2004. Mr. Wargo has served as the President of Wargo &amp; Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is also a director of OpenTV Corp. and Strayer Education, Inc.</p>   |

There are no family relations among the above named individuals, by blood, marriage or adoption. During the past five years, none of the above persons was convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

**Involvement in Certain Proceedings**

Except as stated below, during the past five years, none of the above persons has had any involvement in such legal proceedings as would be material to an evaluation of his or her ability or integrity. On March 28, 2001, an involuntary petition under Chapter 7 of the U.S. Bankruptcy Code was filed against Formus in the United States Bankruptcy Court for the District of Colorado. Mr. Dvorak was a director and the Chief Executive Officer of Formus from September 2000 until June 2002.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires LMI's executive officers and directors, and persons who own more than ten percent of a registered class of LMI's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than ten-percent stockholders are required by SEC regulation to furnish LMI with copies of all Section 16 forms they file.

Based solely on a review of the copies of the Forms 3, 4 and 5 and amendments to those forms furnished to LMI with respect to LMI's most recent fiscal year, or written representations that no Forms 5 were required, LMI believes that, during the year ended December 31, 2004, all Section 16(a) filing requirements applicable to LMI's executive officers, directors and greater than ten-percent beneficial owners were complied with, except that one Form 4 on behalf of Larry Romrell was not timely filed.

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**Code of Business Conduct and Ethics**

LMI has adopted a code of business conduct and ethics that applies to all of its employees, directors and officers. LMI's code of business conduct and ethics constitutes its code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act and is available on its website at [www.libertymediainternational.com](http://www.libertymediainternational.com). In addition, LMI will provide a copy of its code of business conduct and ethics, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media International, Inc., 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (800) 783-7676.

**Committees of the Board of Directors**

***Executive Committee***

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

***Compensation Committee***

LMI's board of directors has established a compensation committee, whose members are Donne F. Fisher, Larry E. Romrell and J. David Wargo. LMI's board of directors has determined that Messrs. Fisher, Romrell and Wargo are independent, as independence is defined in the rules of the Nasdaq Stock Market as well as the rules and regulations adopted by the SEC. The compensation committee reviews and makes recommendations to LMI's board regarding all forms of compensation provided to LMI's executive officers and directors. In addition, the compensation committee reviews and makes recommendations on bonus and stock compensation arrangements for all of LMI's employees and has sole responsibility for the administration of the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005).

***Audit Committee***

LMI's board of directors has established an audit committee, whose members are Donne F. Fisher, David E. Rapley, M. LaVoy Robison and J. David Wargo. LMI's board of directors has determined that Messrs. Fisher, Rapley, Robison and Wargo are independent, as independence for audit committee members is defined in the rules of the Nasdaq Stock Market as well as the rules and regulations adopted by the SEC. In addition, LMI's board of directors has determined that M. LaVoy Robison qualifies as an audit committee financial expert under applicable SEC rules and regulations. The audit committee reviews and monitors the corporate financial reporting and the internal and external audits of LMI. The committee's functions include:

- appointing and, if necessary, replacing LMI's independent auditors;

- reviewing and approving in advance the scope and the fees of all auditing services, and all permissible non-auditing services, to be performed for LMI by LMI's independent auditors;

- reviewing audited financial statements with LMI's management and LMI's independent auditors and making recommendations regarding inclusion of such audited financial statements in certain public filings of LMI;

- overseeing the performance of services by LMI's independent auditors, including holding quarterly meetings to review the quarterly reports of LMI's independent auditors, discussing with LMI's independent auditors issues regarding the ability of LMI's independent auditors to perform such services, obtaining, annually, a letter from LMI's independent auditors addressing certain internal quality-control issues, reviewing with LMI's independent auditors any audit-related problems or difficulties and the response of LMI's management, and addressing other general oversight issues;

- reviewing compliance with and the adequacy of LMI's existing major accounting and financial reporting policies;

overseeing the implementation and maintenance of an internal audit function, discussing with LMI's independent auditors and LMI's management the internal audit function's responsibilities, budget and staff, periodically reviewing with LMI's independent auditors the results and findings of the internal audit function



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and coordinating with LMI's management to ensure that the issues associated with such results and findings are addressed;

reviewing and overseeing compliance with, and establishing procedures for the treatment of alleged violations of, applicable securities laws, SEC and Nasdaq Stock Market rules regarding audit committees and the code of business conduct and ethics adopted by the LMI board; and

preparing a report for LMI's annual proxy statement.

LMI's board of directors has adopted a written charter for the audit committee which is included as Appendix A: Information Concerning Liberty Media International, Inc. Part 6: Audit Committee Charter of Audit Committee of LMI Board of Directors to this joint proxy statement/prospectus. The charter is also available on LMI's website at [www.libertymediainternational.com](http://www.libertymediainternational.com). In addition, LMI will provide a copy of the charter, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media International, Inc. 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (800) 783-7676.

***Audit Committee Report***

The audit committee has reviewed and discussed LMI's audited restated consolidated financial statements with management and LMI's independent auditors, KPMG LLP. The audit committee has also discussed with KPMG LLP the matters required to be discussed by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, including the auditors' judgment about the quality of our accounting principles, as applied in our financial reporting.

The audit committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) that relates to the auditors' independence from LMI and its subsidiaries, and has discussed with LMI's independent auditors their independence.

Based on the reviews and discussions referred to above, the audit committee recommended to LMI's board of directors that the audited restated financial statements be included in LMI's amended Annual Report on Form 10-K/A for the year ended December 31, 2004, for filing with the SEC.

*Submitted by the Members of the Audit Committee:*

*Donne F. Fisher  
David E. Rapley  
M. LaVoy Robison  
J. David Wargo*

***Nominating and Corporate Governance Committee***

LMI's board of directors has established a nominating and corporate governance committee, whose members are Donne F. Fisher, David E. Rapley, Larry E. Romrell and J. David Wargo. LMI's board of directors has determined that Messrs. Fisher, Rapley, Romrell and Wargo are independent, as independence is defined in the rules of the Nasdaq Stock Market as well as the rules and regulations adopted by the SEC. The nominating and corporate governance committee identifies and recommends as nominees to LMI's board of directors individuals qualified to become members of LMI's board, and reviews from time to time the corporate governance guidelines applicable to LMI and recommends to LMI's board such changes as it may deem appropriate. The nominating and corporate governance committee also oversees the evaluation of management of LMI and LMI's board of directors and makes recommendations, as appropriate.

The nominating and corporate governance committee will consider candidates for director recommended by any stockholder provided that such nominations are properly submitted. Eligible stockholders wishing to recommend a candidate for nomination as a director should send the recommendation in writing to the Nominating and Corporate Governance Committee, Liberty Media International, Inc., 12300 Liberty Boulevard, Englewood, Colorado 80112. Stockholder recommendations must be made in accordance with LMI's bylaws, as discussed under Additional Information Stockholder Proposals LMI below, and contain the following information:

the proposing stockholder's name and address and documentation indicating the number of shares of LMI common stock beneficially owned by such person and the holder or holders of record of those shares, together with a statement that the proposing stockholder is recommending a candidate for nomination as a director;

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the candidate's name, age, business and residence addresses, principal occupation or employment, business experience, educational background and any other information relevant in light of the factors considered by the nominating and corporate governance committee in making a determination of a candidate's qualifications, as described below;

a statement detailing any relationship, arrangement or understanding that might affect the independence of the candidate as a member of LMI's board;

any other information that would be required under SEC rules in a proxy statement soliciting proxies for the election of such candidate as a director;

a representation as to whether the proposing stockholder intends to deliver any proxy materials or otherwise solicit proxies in support of the director nominee;

a representation that the proposing stockholder intends to appear in person or by proxy at the annual stockholders meeting at which the person named in such notice is to stand for election; and

a signed consent of the candidate to serve as a director, if nominated and elected.

In connection with its evaluation, the nominating and corporate governance committee may request additional information from the proposing stockholder and the candidate. The nominating and corporate governance committee has sole discretion to decide which individuals to recommend for nomination as directors.

To be nominated to serve as a director, a nominee need not meet any specific, minimum criteria; however, the nominating and corporate governance committee believes that nominees for director should possess the highest personal and professional ethics, integrity, values and judgment and should be committed to the long-term interests of LMI stockholders. When evaluating a potential director nominee, including one recommended by a stockholder, the nominating and corporate governance committee will take into account a number of factors, including, but not limited to, the following:

independence from management;

education and professional background;

judgment, skill, integrity and reputation;

existing commitments to other businesses as a director, executive or owner;

personal conflicts of interest, if any; and

the size and composition of the existing board of directors.

When seeking candidates for director, the nominating and corporate governance committee may solicit suggestions from incumbent directors, management, stockholders and others. After conducting an initial evaluation of a prospective nominee, the nominating and corporate governance committee will interview that candidate if it believes the candidate might be suitable to be a director. The nominating and corporate governance committee may also ask the candidate to meet with management. If the nominating and corporate governance committee believes a candidate would be a valuable addition to the board of directors, it may recommend to LMI's full board that candidate's appointment or election.

Prior to nominating an incumbent director for re-election at an annual meeting of stockholders, the nominating and corporate governance committee will consider the director's past attendance at, and participation in, meetings of the board of directors and its committees and the director's formal and informal contributions to the various activities conducted by the board and the board committees of which such individual is a member. Messrs. Rapley and Romrell,

who are nominated for re-election at the LMI annual meeting, were approved for nomination by the nominating and corporate governance committee.

LMI's board of directors has adopted a written charter for the nominating and corporate governance committee. LMI's board has also adopted corporate governance guidelines and, as an annex thereto, criteria for director independence. The criteria for director independence consists of categorical standards to be used in determining which of LMI's directors qualify as independent for purposes of the Nasdaq Stock Market rules as well as applicable rules and regulations adopted by the SEC. This charter and the corporate governance guidelines, including the criteria for director independence, is available on LMI's website at [www.libertymediainternational.com](http://www.libertymediainternational.com). In addition, LMI will provide copies of this charter or the corporate governance guidelines, including the criteria for director independence, free of charge, to any stockholder who calls or submits a request in writing to Investor Relations, Liberty Media International, 12300 Liberty Boulevard, Englewood, Colorado 80112, Tel. No. (800) 783-7676.

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***Other***

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

**Board Meetings**

During 2004, there were nine meetings of LMI's full board of directors, three meetings of LMI's compensation committee, six meetings of LMI's audit committee and one meeting of LMI's nominating and corporate governance committee. Each director of LMI attended, either in person or telephonically, at least 75% of the total number of LMI board meetings held during the period during which he served on the LMI board. Each director serving on a committee of the LMI board attended, in person or telephonically, at least 75% of the total number of meetings held by each committee on which he served during the period during which he served on such committee, other than Donne F. Fisher who did not attend one meeting of LMI's compensation committee.

**Director Attendance at Annual Meetings**

LMI's board of directors encourages all members to attend each annual meeting of LMI stockholders. Since LMI was spun off from Liberty on June 7, 2004, LMI did not hold a 2004 annual stockholders meeting.

**Stockholder Communication with Directors**

LMI's stockholders may send communications to LMI's board of directors or to individual directors by mail addressed to the Board of Directors or to an individual director c/o Liberty Media International, Inc., 12300 Liberty Boulevard, Englewood, Colorado 80112. Communications from LMI's stockholders will be forwarded to LMI's directors on a timely basis.

**Executive Sessions**

Following LMI's spin off from Liberty, the independent directors of LMI held one executive session without the participation of management or of non-independent directors during 2004. During 2005, the independent directors of LMI intend to hold regularly scheduled executive sessions without the participation of management or of non-independent directors.

**Executive Compensation**

***Summary Compensation***

The table below sets forth information for the year ended December 31, 2004 relating to compensation paid to LMI's Chief Executive Officer and LMI's four other most highly compensated executive officers, who we refer to as the LMI named executive officers, for services rendered to LMI and its subsidiaries. Prior to June 7, 2004, LMI was a subsidiary of Liberty. Accordingly, all compensation earned by the LMI named executive officers from January 1, 2004 through the date of the spin off was paid by Liberty. All compensation earned by the LMI named executive officers (other than by Elizabeth M. Markowski, see note (2) below) after the date of the spin off was paid by LMI. Although certain of the individuals who are LMI named executive officers were performing services in connection with LMI's businesses prior to January 1, 2004, those individuals were employed by Liberty during that period, were not dedicated exclusively to LMI's businesses (with the exception of Miranda Curtis), and devoted substantial time and

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effort to other Liberty businesses or to the Liberty organization in general. Accordingly, no information on the compensation of the LMI named executive officers for periods prior to January 1, 2004 is reported.

**Summary Compensation Table****Annual Compensation**

| Name and Principal Position<br>with Our Company                                      | Year | Salary (\$)   | Other<br>Annual<br>Compensation | Long-Term<br>Compensation |                            |                                   |
|--|------|---------------|---------------------------------|---------------------------|----------------------------|-----------------------------------|
|  |      |               |                                 | Restricted Securities     |                            |                                   |
|  |      |               |                                 | Stock<br>Awards           | Underlying<br>Options/SARs | All Other<br>Compensation<br>(\$) |
| John C. Malone<br>President and Chief<br>Executive Officer                           | 2004 | \$            | \$                              | \$                        | 1,568,562(4)               | \$                                |
| Miranda Curtis<br>Senior Vice President  | 2004 | \$ 716,330(1) | \$                              | \$                        | 63,830(4)                  | \$ 22,019(5)                      |
| David B. Koff<br>Senior Vice President   | 2004 | \$ 595,808    | \$ 742,003(3)                   | \$                        | 53,192(4)                  | \$ 21,256(6)                      |
| David J. Leonard<br>Senior Vice President  | 2004 | \$ 403,077    | \$                              | \$                        | 42,554(4)                  | \$ 16,756(6)                      |
| Elizabeth M. Markowski<br>Senior Vice President,<br>General Counsel and<br>Secretary | 2004 | \$ 676,866(2) | \$                              | \$                        | 63,830(4)                  | \$ 20,500(6)                      |

- (1) Ms. Curtis' compensation is paid in U.K. pounds, which, for purposes of the foregoing presentation, has been converted to U.S. Dollars based upon the average exchange rate in effect during 2004.
- (2) Ms. Markowski continued to be an officer and employee of Liberty through December 31, 2004, and during the period from the date of the spin off through December 31, 2004, LMI reimbursed Liberty for 75% of Ms. Markowski's compensation expenses. This allocation was based upon the amount of time she spent on the respective businesses of LMI and Liberty. The numbers in the table represent 100% of Ms. Markowski's compensation for 2004, rather than LMI's allocable share.
- (3) Represents reimbursement for housing and other costs incurred by Mr. Koff as an expatriate working in London, England.
- (4) The numbers of shares reflect adjustments for LMI's July 2004 rights offering which concluded in August 2004.
- (5) Amounts represent contributions made during 2004 to a pension fund maintained for the benefit of Ms. Curtis under applicable United Kingdom law. With respect to these contributions, Ms. Curtis is fully vested.
- (6) Amounts represent contributions to the Liberty Media 401(k) Savings Plan (Liberty 401(k) Savings Plan) during 2004 prior to the date of the spin off and, in the case of Messrs. Koff and Leonard, premiums paid for term life

insurance under UGC's group policy. The Liberty 401(k) Savings Plan provides employees with an opportunity to save for retirement. The Liberty 401(k) Savings Plan participants may contribute up to 10% of their compensation, and Liberty makes a matching contribution of 100% of the participants' contributions. Participant contributions to the Liberty 401(k) Savings Plan are fully vested upon contribution. Generally, participants acquire a vested right in Liberty contributions as follows:

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

With respect to Liberty contributions made to the Liberty 401(k) Savings Plan in 2004, Mr. Koff and Ms. Markowski were fully vested and Mr. Leonard was not vested as of December 31, 2004.

Under UGC's group term life insurance benefits plan, each employee is provided with employer-paid coverage equal to twice the employee's annual salary up to maximum coverage of \$400,000 for employees with an annual salary of less than \$266,000, and, upon an employee's election, 1.5 times the employee's annual salary up to maximum coverage of \$1 million for employees with an annual salary of \$266,000 or more. LMI reimburses UGC for the premiums paid with respect to LMI's employees.

**Table of Contents*****Option and SAR Grants in Last Fiscal Year***

The table below sets forth certain information concerning stock options granted to the LMI named executive officers during the year ended December 31, 2004.

| <b>Name</b>            | <b>Number of Securities Underlying Options Granted(1)</b> | <b>Percent of Total Options Granted to Employees in Fiscal Year</b> | <b>Exercise or Base Price (\$/sh)(2)</b> | <b>Expiration Date</b> | <b>Grant Date Present Value(3)</b> |
|------------------------|---|---|--|------------------------|------------------------------------|
| John C. Malone         |   |   |  |                        |                                    |
| Series A               |   |   |  |                        |                                    |
| Series B               | 1,568,562(4)  | 100%  | \$ 36.75                                 | June 7, 2014           | \$ 20,881,827                      |
| Miranda Curtis         |   |   |  |                        |                                    |
| Series A               | 63,830  | 14.6%   | \$ 33.41                                 | June 22, 2014          | \$ 772,600                         |
| Series B               |   |   |  |                        |                                    |
| David B. Koff          |   |   |  |                        |                                    |
| Series A               | 53,192  | 12.1%   | \$ 33.41                                 | June 22, 2014          | \$ 640,837                         |
| Series B               |   |   |  |                        |                                    |
| David J. Leonard       |   |   |  |                        |                                    |
| Series A               | 42,554  | 9.7%  | \$ 33.41                                 | June 22, 2014          | \$ 515,074                         |
| Series B               |   |   |  |                        |                                    |
| Elizabeth M. Markowski |   |   |  |                        |                                    |
| Series A               | 63,830  | 14.6%   | \$ 33.41                                 | June 22, 2014          | \$ 772,600                         |
| Series B               |   |   |  |                        |                                    |

- (1) The numbers of shares reflect adjustments for LMI's July 2004 rights offering which concluded in August 2004.
- (2) The exercise prices reflect adjustments for LMI's July 2004 rights offering which concluded in August 2004. The exercise prices for the LMI Series A options were equal to the closing sale price of the LMI Series A common stock on their respective grant dates. The exercise price for the LMI Series B options was equal to 110% of the closing sale price of the LMI Series A common stock on June 22, 2004 (\$39.10 before considering the impact of the July 2004 rights offering), the date that definitive terms were established for such options. The closing market price of the LMI Series B common stock on that date was \$40.05 (before considering the impact of the July 2004 rights offering).
- (3) The value shown is based upon (i) the number of options granted, as adjusted for the July 2004 rights offering and (ii) the per share present value, as determined using the Black-Scholes model. The key assumptions used in the model for purposes of this calculation include the following: (a) a 4.09% discount rate; (b) a 25.25% volatility factor; (c) the 6-year expected option life; (d) the fair value of the applicable series of LMI common stock on the grant date; and (e) a per share exercise price of \$33.41, in the case of LMI Series A options, and a per share exercise price of \$36.75, in the case of LMI Series B options (in each case, as adjusted for the July 2004 rights offering). The actual value realized will depend upon the extent to which the stock price exceeds the exercise



price on the date the option is exercised. Accordingly, the realized value, if any, will not necessarily be the value determined by the model.

- (4) The options granted to Mr. Malone were awarded as the primary form of compensation to be paid to Mr. Malone by LMI. See Employment Contracts and Termination of Employment and Change in Control Arrangements.

**Table of Contents****Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values**

The following table sets forth certain information concerning exercises of LMI options by the LMI named executive officers during the year ended December 31, 2004:

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

| <b>Name</b>                   | <b>Shares<br/>Acquired<br/>on<br/>Exercise<br/>(#)</b> | <b>Value<br/>Realized<br/>(\$)</b> | <b>Number of<br/>Securities<br/>Underlying<br/>Unexercised<br/>Options/SARs<br/>at<br/>December 31,<br/>2004 (#)<br/>Exercisable/<br/>Unexercisable(1)</b> | <b>Value of<br/>Unexercised<br/>In-the-Money<br/>Options/SARs<br/>at<br/>December 31,<br/>2004<br/>Exercisable/<br/>Unexercisable<br/>(\$)</b> |
|-------------------------------|--|------------------------------------|--|--|
| <b>John C. Malone</b>         |  |                                    |  |  |
| Series A                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 | 221  | \$ 2,721   |
| Unexercisable                 |  | \$                                 |  |  |
| Series B                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 | 1,965,665  | \$ 23,630,664(2)   |
| Unexercisable                 |  | \$                                 | 213,824  | \$ 2,377,728   |
| <b>Miranda Curtis</b>         |  |                                    |  |  |
| Series A                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 | 81,361   | \$ 1,001,558   |
| Unexercisable                 |  | \$                                 | 76,713   | \$ 976,949   |
| Series B                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 |  |  |
| Unexercisable                 |  | \$                                 |  |  |
| <b>David B. Koff</b>          |  |                                    |  |  |
| Series A                      |  |                                    |  |  |
| Exercisable                   | 100,551  | \$ 657,101                         | 21,594   | \$ 265,822   |
| Unexercisable                 |  | \$                                 | 127,872  | \$ 1,601,232   |
| Series B                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 |  |  |
| Unexercisable                 |  | \$                                 |  |  |
| <b>David J. Leonard</b>       |  |                                    |  |  |
| Series A                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 | 1,596  | \$ 19,644  |
| Unexercisable                 |  | \$                                 | 48,937   | \$ 624,119   |
| Series B                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 |  |  |
| Unexercisable                 |  | \$                                 |  |  |
| <b>Elizabeth M. Markowski</b> |  |                                    |  |  |
| Series A                      |  |                                    |  |  |
| Exercisable                   |  | \$                                 | 53,804   | \$ 662,331   |

|               |    |        |    |           |
|---------------|----|--------|----|-----------|
| Unexercisable | \$ | 92,199 | \$ | 1,167,520 |
| Series B      |    |        |    |           |
| Exercisable   | \$ |        |    |           |
| Unexercisable | \$ |        |    |           |

- (1) Includes options to acquire LMI common stock that were issued to the LMI named executive officers as a result of adjustments made, in connection with the spin off, to their outstanding Liberty stock incentive awards, all of which were granted to them by Liberty prior to January 1, 2004. Each option and stock appreciation right with respect to Liberty common stock outstanding as of the record date for the spin off was adjusted by the incentive plan committee of Liberty's board of directors in connection with the spin off. Liberty options held, as of the spin off record date, by the LMI named executive officers, among others, were divided into two options: (1) an option to purchase the number and series of shares of LMI common stock that would have been issued in the spin off in respect of the shares of Liberty common stock subject to the applicable Liberty option, as if such Liberty option had been exercised in full immediately prior to the record date for the spin off, and (2) an adjusted Liberty option. The aggregate exercise price of each such outstanding Liberty option was allocated between the LMI option and the adjusted Liberty option. Stock appreciation rights related to Liberty Series A common stock held, as of the

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spin off record date, by the LMI named executive officers, among others, were divided into two awards (in a manner similar to the adjustment made to outstanding Liberty options): (1) an LMI option and (2) an adjusted Liberty stock appreciation right. The aggregate base price of each outstanding Liberty stock appreciation right was allocated between the LMI option and the adjusted Liberty stock appreciation right. Each LMI option issued as a result of these adjustments had an exercise price per share equal to the fair market value per share of the applicable series of LMI common stock, which, in the case of Series A options, was \$33.92 (as adjusted for LMI's July 2004 rights offering) and, in the case of Series B options, was \$37.88 (as adjusted for LMI's July 2004 rights offering).

(2) These options were fully exercisable as of December 31, 2004, but are subject to forfeiture. See Employment Contracts and Termination of Employment and Change in Control Arrangements for more information.

**Employment Contracts and Termination of Employment and Change in Control Arrangements**

Except as described below, LMI has no employment contracts, termination of employment agreements or change of control agreements with any of its named executive officers.

LMI entered into an option agreement with John C. Malone, LMI's Chairman of the Board, Chief Executive Officer and President, pursuant to which LMI granted to Mr. Malone, under the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005), options to acquire 1,568,562 shares of LMI Series B common stock (as adjusted for LMI's July 2004 rights offering) at an exercise price per share of \$36.75 (as adjusted for LMI's July 2004 rights offering). The options represent the primary form of compensation to be paid to Mr. Malone by LMI. The options are fully exercisable; however, Mr. Malone's rights with respect to the options and any shares issued upon exercise will vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone continues to have a qualifying relationship (whether as a director, officer, employee or consultant) with LMI or any successor to LMI. (If the mergers are completed, Liberty Global will be the successor to LMI under the option agreement.) If Mr. Malone ceases to have such a qualifying relationship (subject to certain exceptions for his death or disability or termination without cause), his unvested options will be terminated and/or LMI will have the right to require Mr. Malone to sell to LMI, at the exercise price of the options, any shares of LMI Series B common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with LMI.

**Compensation Committee Interlocks and Insider Participation**

Donne F. Fisher, Larry E. Romrell and J. David Wargo each served on LMI's compensation committee during the year ended December 31, 2004. None of them was, during 2004, an officer or employee of LMI or any of its subsidiaries, was formerly an officer of LMI or any of its subsidiaries or had any relationship requiring disclosure under the securities laws.

**Report of the Compensation Committee on Executive Compensation**

Most decisions regarding the compensation of LMI's executive officers during the year ended December 31, 2004, were made by the compensation committee of LMI's board of directors, whose members were Donne F. Fisher, Larry E. Romrell and J. David Wargo. All decisions of the compensation committee regarding the compensation of LMI's executive officers during the year ended December 31, 2004, were reviewed by LMI's board of directors. For the year ended December 31, 2004, the compensation committee furnished the following report on its policies with respect to the compensation of LMI's executive officers.

***General Executive Compensation Policy***

LMI's executive compensation policy is designed to attract qualified individuals who have the potential as executive officers to contribute to LMI's long-term growth and success, to motivate LMI's executive officers to maximize their contribution to LMI and to retain LMI's executive officers in LMI's employ. Accordingly, LMI's executive compensation policy is designed to offer LMI's executive officers competitive compensation opportunities that are tied to their contribution to LMI's growth and success and their personal performance. Each executive officer's compensation package is comprised primarily of base salary, stock-based incentives and matching contributions to the UnitedGlobalCom, Inc. 401(k) Savings Plan.



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LMI's compensation committee evaluates certain qualitative factors relating to the performance of each of LMI's executive officers, including LMI's Chief Executive Officer, such as:

experience;

responsibilities assumed;

demonstrated leadership ability;

overall effectiveness;

the level of an executive's compensation in relation to other executives in LMI with the same, more or less responsibilities; and

the performance of the group for which the executive is primarily responsible.

***Implementation of Executive Compensation Policy***

The following describes the manner in which LMI's executive compensation policy was implemented generally with respect to the year ended December 31, 2004. Also summarized below are several of the more important factors which were considered in establishing the components of LMI's executive officers' compensation packages for the year ended December 31, 2004. Additional factors were also taken into account, and the compensation committee may, in its discretion, apply entirely different factors, particularly different measures of performance, in setting executive compensation for future fiscal years, but it is expected that all compensation decisions will be designed to further LMI's executive compensation policy set forth above.

*Base Salary.* The compensation committee determined that, for 2004, the base salary of the executive officers (other than LMI's Chief Executive Officer) would continue on the same basis and at the same rate as such persons were being compensated by Liberty prior to the June 7, 2004 spin off transaction.

*Stock-Based Incentives.* To provide additional long-term incentives to the executive officers that are tied to LMI's success, the compensation committee awarded stock options to each of LMI's executive officers (other than LMI's Chief Executive Officer) to purchase between 42,554 and 63,830 shares of LMI's Series A common stock (as adjusted for LMI's July 2004 rights offering). In approving these grants, the compensation committee considered the expected future contributions of the individual executive officers.

*401(k).* LMI matches contributions made to the UnitedGlobalCom, Inc. 401(k) Savings Plan by LMI's executive officers on the same basis as UGC matches contributions by its employees.

***CEO Compensation***

Prior to the June 2004 spin off transaction, the compensation committee approved the grant to Mr. Malone, as his primary form of compensation as Chief Executive Officer of LMI, of options to purchase a number of shares of LMI's Series B common stock that would represent upon exercise 1% of the shares of LMI's common stock outstanding following the spin off at an exercise price equal to 110% of the trading price of LMI's Series A common stock. At a meeting of the compensation committee held on June 22, 2004 to approve the definitive terms of the option grant, the number of shares subject to the options was set at 1,568,562 (as adjusted for LMI's July 2004 rights offering) and the exercise price was set at 110% of the closing price of LMI's Series A common stock on that date (\$36.75 after adjustment for LMI's July 2004 rights offering). In setting Mr. Malone's 2004 compensation package, the compensation committee considered the various qualitative factors described above, as well as Mr. Malone's strategic vision for LMI.

*Submitted by the Members of the Compensation Committee:*

*Donne F. Fisher*

*Larry E. Romrell*

*J. David Wargo*



**Table of Contents****Director Compensation*****Cash Compensation***

Each LMI director who is not an employee of LMI is entitled to a fee of \$1,000 for each board meeting he attends. In addition, the chairman and each other member of the audit committee of LMI's board of directors is entitled to a fee of \$5,000 and \$2,000, respectively, for each audit committee meeting he attends. Each member of the compensation committee and each member of the nominating and corporate governance committee is entitled to a fee of \$1,000 for each committee meeting he attends. Fees to LMI directors are payable in cash. LMI also reimburses members of its board for travel expenses incurred to attend any meetings of its board or any committee thereof.

***Option Awards***

Each LMI director who is not an employee of LMI (other than J.C. Sparkman) was granted options to acquire 3,000 shares of LMI Series A common stock on June 22, 2004. All of these options were granted pursuant to the Liberty Media International, Inc. 2004 Nonemployee Director Incentive Plan (As Amended and Restated Effective April 1, 2005), vest on the first anniversary of the grant date (provided that the LMI director who is not an employee of LMI continues to serve as a director of LMI on the first anniversary of the grant date) and were granted at a per share exercise price of \$35.55, which was the closing price of LMI Series A common stock on the grant date. These options, together with all of LMI's then-outstanding stock incentive awards, were adjusted in connection with LMI's July 2004 rights offering. As a result, these options now represent the right to acquire 3,192 shares of LMI Series A common stock at a per share exercise price of \$33.41. All other terms of these options remained the same.

Mr. Sparkman, who is also not an employee of LMI, joined the board of directors of LMI on November 9, 2004 and, consistent with LMI's director compensation policy, Mr. Sparkman was granted options to acquire 3,000 shares of LMI Series A common stock on that date. The options were granted pursuant to the director plan, vest on the first anniversary of the grant date (provided that Mr. Sparkman continues to serve as a director of LMI on the first anniversary of the grant date) and were granted at a per share exercise price of \$37.42, which was the closing price of LMI Series A common stock on the grant date.

On March 9, 2005, the LMI board determined to amend the Non Qualified Stock Option Agreements, dated as of June 22, 2004, that LMI had entered into with each of Robert R. Bennett, Donne F. Fisher and M. LaVoy Robison to provide that if the mergers are completed before June 22, 2005 (the first anniversary of the grant date of their 2004 option grants), and solely as a result of the completion of the mergers, Messrs. Bennett, Fisher and Robison cease to serve as directors of LMI, their 2004 option grants will vest on the date on which the mergers are completed rather than on June 22, 2005.

Following each annual meeting of LMI stockholders, each LMI director who is not an employee of LMI will be granted options to acquire an additional 3,000 shares of LMI Series A common stock. All of these options will be granted pursuant to the director plan, will vest on the first anniversary of the applicable grant date and will be granted at an exercise price equal to the fair market value of LMI Series A common stock. If the mergers are completed, the options granted to LMI's nonemployee directors following the LMI annual meeting will terminate in accordance with their terms on the day on which the mergers are completed.

**Equity Compensation Plan Information*****Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)***

*General.* The incentive plan is administered by the compensation committee of LMI's board of directors. The compensation committee is currently comprised of three members: Donne F. Fisher, Larry E. Romrell and J. David Wargo. Each member is a non-employee director within the meaning of Rule 16b-3 of the Exchange Act and an outside director within the meaning of Section 162(m) of the Code. The compensation committee has the full power and authority to grant eligible persons the awards described below and determine the terms and conditions under which any awards are made.

On March 9, 2005, the LMI compensation committee determined to amend and restate the incentive plan in anticipation of Liberty Global assuming the incentive plan following the completion of the mergers and in response to the recent adoption of Section 409A of the Code. The following summary of the incentive plan reflects the terms and conditions of the incentive plan as in effect following this amendment and restatement. These terms and conditions



apply to all grants made under the incentive plan from and following March 9, 2005. The following summary is not intended to be complete, and we refer you to the copy of the incentive plan included as Appendix A: Information Concerning Liberty Media International, Inc. Part 5: Liberty Media International, Inc. 2004 Incentive Plan (As

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Amended and Restated Effective March 9, 2005) to this joint proxy statement/prospectus for a complete statement of its terms and conditions.

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

The number of individuals who will receive awards under the incentive plan will vary from year to year and will depend on various factors, such as the number of promotions and LMI's hiring needs during the year, and thus we cannot determine future award recipients. As of March 31, 2005, under the incentive plan, options to acquire an aggregate of 438,054 shares of LMI Series A common stock have been granted to LMI's officers and employees and options to acquire 1,568,562 shares of LMI Series B common stock have been granted to John C. Malone, LMI's President, Chief Executive Officer and Chairman of the Board. These option share numbers reflect adjustments made in connection with LMI's July 2004 rights offering.

The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards). The maximum number of shares of LMI common stock with respect to which awards may be granted under the incentive plan is currently 20 million, subject to anti-dilution and other adjustment provisions of the incentive plan. Subject to the completion of the mergers, the maximum number of shares with respect to which awards may be granted under the incentive plan will be increased to 25 million. If the incentive plan is not approved at the LMI annual meeting, as described in LMI Annual Business Matter Proposals LMI Incentive Plan Proposal, the maximum number of shares with respect to which awards may be issued under the incentive plan will remain at 20 million. With limited exceptions, no person may be granted in any calendar year awards covering more than 2 million shares of LMI common stock. In addition, no person may receive payment for cash awards during any calendar year in excess of \$10 million.

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

The compensation committee also has the power to:

interpret the incentive plan and adopt any rules, regulations and guidelines for carrying out the incentive plan that it believes are proper;

correct any defect or supply any omission or reconcile any inconsistency in the incentive plan or related documents;

determine the form and terms of the awards made under the incentive plan, including persons eligible to receive the award and the number of shares or other consideration subject to awards; and

delegate to any subcommittee its authority and duties under the incentive plan unless a delegation would adversely impact the availability of transaction exemptions under Rule 16b-3 of the Exchange Act, and the deductibility of compensation for federal income tax purposes.

If the mergers are completed, (1) all outstanding awards under the incentive plan will be converted into awards with respect to an identical series of shares of Liberty Global common stock; (2) Liberty Global will assume the incentive plan and succeed LMI as the issuer under the incentive plan; (3) all future awards issued under the incentive plan will

be with respect to Liberty Global common stock rather than LMI common stock; (4) the name of the plan will automatically change to the Liberty Global, Inc. 2005 Incentive Plan; and (5) the maximum number of shares of any series of Liberty Global common stock with respect to which awards will be issuable by Liberty Global under the incentive plan will be 25 million, subject to anti-dilution and other adjustment provisions of the incentive plan.

*Outstanding Awards.* The following chart reflects awards outstanding under the incentive plan, as of February 28, 2005, granted to LMI's named executive officers, LMI's current executive officers as a group and LMI's current non-executive officer employees as a group (in each case, as adjusted for LMI's July 2004 rights offering). No awards have been granted under the incentive plan to any of LMI's directors who are not also executive officers of LMI.

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**PLAN BENEFITS**  
**Liberty Media International 2004 Incentive Plan**  
**(As Amended and Restated Effective March 9, 2005)**

| Name and Position  | Dollar<br>Value<br>(\$)(1) | Number of Units      |
|--|----------------------------|----------------------|
| John C. Malone<br>President and Chief Executive Officer                        | \$ 36.75                   | 1,568,562 (Series B) |
| Miranda Curtis<br>Senior Vice President  | \$ 33.41                   | 63,830 (Series A)    |
| David B. Koff<br>Senior Vice President   | \$ 33.41                   | 53,192 (Series A)    |
| David J. Leonard<br>Senior Vice President                                      | \$ 33.41                   | 42,554 (Series A)    |
| Elizabeth M. Markowski<br>Senior Vice President, General Counsel and Secretary | \$ 33.41                   | 63,380 (Series A)    |
| Executive Group  | \$ 33.41                   | 308,514 (Series A)   |
|  | \$ 36.75                   | 1,568,562 (Series B) |
| Non Executive Officer Employee Group   | \$ 33.45                   | 438,054 (Series A)   |

(1) The dollar value is assumed for this purpose to equal the exercise price, which (i) in the case of the LMI Series A options listed, is equal to the closing sale price of the LMI Series A common stock on the grant date (as adjusted for LMI's July 2004 rights offering), and (ii) in the case of the LMI Series B options listed, is equal to 110% of the closing sale price of the LMI Series A common stock on June 22, 2004 (as adjusted for LMI's July 2004 rights offering), the date that definitive terms were established for the LMI Series B options. Any value realized by a grantee will depend upon the extent to which the market price of the stock exceeds the exercise price on the date the award is exercised.

*Options.* Non-qualified stock options entitle the holder to purchase a specified number of shares of a series of LMI common stock at a specified exercise price subject to the terms and conditions of the option grant. The exercise price of an option specified in a grant made after March 9, 2005 may be no less than the fair market value of the applicable series of LMI common stock as of the day the option is granted. LMI's compensation committee determines, in connection with each option awarded to a holder, (1) the series and number of shares of LMI common stock subject to the option, (2) the per share exercise price, (3) whether that price is payable in cash, by check, by promissory note, in whole shares of any series of LMI common stock, by the withholding of shares of LMI common stock issuable upon exercise of the option, by cashless exercise, or any combination of the foregoing, (4) other terms and conditions of exercise, (5) restrictions on transfer of the option and (6) other provisions not inconsistent with the incentive plan. Options granted under the incentive plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

*Stock Appreciation Rights.* An SAR entitles the recipient to receive a payment in stock equal to the excess of the fair market value (on the day the SAR is exercised) of a share of the applicable series of LMI common stock with respect to which the SAR was granted over the base price specified in the grant. LMI's compensation committee may permit a recipient who is not subject to U.S. federal income tax to receive payments in the form of cash or stock, or a combination of cash and stock, upon the exercise of an SAR. An SAR may be granted to an option holder with respect to all or a portion of the shares of LMI common stock subject to the related stock option (a tandem SAR) or granted separately to an eligible employee or independent contractor (a free-standing SAR). Tandem SARs are exercisable

only to the extent that the related stock option is exercisable. Upon the exercise or termination of the related stock option, the related tandem SAR will be automatically cancelled to the extent of the number of shares of LMI common stock with respect to which the related stock option was so exercised or terminated. Free-standing SARs are exercisable at the time and upon the terms and conditions provided in the relevant agreement. The base price of an SAR specified in a grant made after March 9, 2005 may be no less than the fair market value of a share of the applicable series of LMI common stock as of the day the SAR is granted. SARs granted under the incentive plan are also generally non-transferable during the lifetime of an SAR holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

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*Restricted Shares.* Restricted shares are shares of LMI common stock, or the right to receive shares of LMI common stock, that become vested and may be transferred upon completion of the restriction period. LMI's compensation committee determines, and each individual award agreement will provide, (1) whether the restricted shares are issued to the award recipient at the beginning or end of the restriction period, (2) the price, if any, to be paid by the recipient of the restricted shares, (3) whether dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period, (4) whether dividends or distributions paid with respect to shares issued at the beginning of the restriction period will be retained by LMI during the restriction period, (5) whether the holder of the restricted shares may be paid a cash amount any time after the shares become vested, (6) the vesting date or vesting dates (or basis of determining the same) for the award and (7) other terms and conditions of the award. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash amount to be received by the holder with respect to the restricted shares will become payable, all in accordance with the terms of the individual award agreement.

*Stock Units.* Units based upon the fair market value of shares of either series of LMI common stock may also be awarded under the incentive plan. LMI's compensation committee has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

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

*Performance Awards.* At the discretion of LMI's compensation committee, any of the above-described awards, including cash awards, may be designated as a performance award. Performance awards are contingent upon performance measures applicable to a particular period, as established by LMI's compensation committee and set forth in individual agreements, based upon any one or more of the following business criteria:

increased revenue;

net income measures (including, but not limited to, income after capital costs and income before or after taxes);

stock price measures (including, but not limited to, growth measures and total stockholder return);

price per share of LMI common stock;

market share;

earnings per share (actual or targeted growth);

earnings before interest, taxes, depreciation and amortization (EBITDA);

economic value added (or an equivalent metric);

market value added;

debt to equity ratio;

cash flow measures (including, but not limited to, cash flow return on capital, cash flow return on tangible capital, net cash flow and net cash flow before financing activities);

return measures (including, but not limited to, return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity);

operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes and production efficiency);

expense measures (including, but not limited to, overhead costs and general and administrative expense);

margins;

stockholder value;

total stockholder return;

proceeds from dispositions;

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total market value; and

corporate values measures (including ethics compliance, environmental and safety).

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

*Awards Generally.* Awards under the incentive plan may be granted either individually, in tandem or in combination with each other. Under certain conditions, including the occurrence of certain approved transactions, a board change or a control purchase (all as defined in the incentive plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. At the time an award is granted, LMI's compensation committee will determine, and the relevant agreement will provide for, the vesting or early termination, upon a holder's termination of employment with LMI, of any unvested options, SARs, stock units or restricted shares and the period during which any vested options, SARs and stock units must be exercised. Unless otherwise provided in the relevant agreement, (1) no option or SAR may be exercised after its scheduled expiration date, (2) if the holder's service terminates by reason of death or disability (as defined in the incentive plan), his or her options or SARs shall remain exercisable for a period of at least one year following such termination (but not later than the scheduled expiration date) and (3) any termination of the holder's service for cause (as defined in the incentive plan) will result in the immediate termination of all options, SARs and stock units and the forfeiture of all rights to any restricted shares held by such terminated holder. If a holder's service terminates due to death or disability, options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise.

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

*Amendment and Termination.* The incentive plan was approved by LMI's board of directors, and became effective, on May 11, 2004. The incentive plan was amended and restated on March 9, 2005. The incentive plan will terminate on May 11, 2014, unless earlier terminated by LMI's compensation committee. LMI's compensation committee may suspend, discontinue, modify or amend the incentive plan at any time prior to its termination. However, before an amendment may be made that would adversely affect a participant who has already been granted an award, the participant's consent must be obtained, unless the change is necessary to comply with Section 409A of the Code.

***Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005)***



*General.* The director plan is designed to provide a method whereby non-employee directors may be awarded additional remuneration for the services they render on LMI's board and subcommittees of LMI's board, and to encourage their investment in capital stock of LMI, thereby increasing their proprietary interest in LMI's businesses and their personal interest in the continued success and progress of LMI. The director plan is also intended to aid in attracting persons of exceptional ability to become non-employee directors of LMI. The director plan is administered by the full board of directors. The board has the full power and authority to grant eligible non-employee directors the awards described below and determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to LMI's employees.

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On April 1, 2005, the LMI board determined to amend and restate the director plan in anticipation of Liberty Global assuming the director plan following the completion of the mergers and in response to the recent adoption of Section 409A of the Code. The following summary of the director plan reflects the terms and conditions of the director plan as in effect following this amendment and restatement. These terms and conditions apply to all grants made under the director plan from and following April 1, 2005.

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

LMI's board also reserves the power to:

interpret the director plan and adopt any rules, regulations and guidelines for carrying out the director plan that it believes are proper;

correct any defect or supply any omission or reconcile any inconsistency in the director plan or related documents;

determine the form and terms of awards made under the director plan, including directors eligible to receive awards and the number of shares or other consideration subject to awards; and

delegate to company employees certain administrative or ministerial duties in carrying out the purposes of the director plan.

If the mergers are completed, (1) all outstanding awards under the director plan will be converted into awards with respect to an identical series of Liberty Global common stock; (2) Liberty Global will assume the director plan and succeed LMI as the issuer under the director plan; (3) all future awards issued under the director plan will be with respect to Liberty Global common stock rather than LMI common stock; and (4) the name of the plan will automatically change to the Liberty Global, Inc. 2005 Nonemployee Director Incentive Plan.

*Options.* Non-qualified stock options entitle the holder to purchase a specified number of shares of a series of LMI common stock at a specified exercise price subject to the terms and conditions of the option grant. The exercise price of an option specified in a grant made after April 1, 2005 may be no less than the fair market value of a share of the applicable series of LMI common stock as of the day the option is granted. LMI's board determines, in connection with each option awarded to a holder, (1) the series and number of shares of LMI common stock subject to the option, (2) the per share exercise price, (3) whether that price is payable in cash, by check, in whole shares of any series of LMI common stock, by the withholding of shares of LMI common stock issuable upon exercise of the option, by cashless exercise or any combination of the foregoing, (4) other terms and conditions of exercise, (5) restrictions on transfer of the option, and (6) other provisions not inconsistent with the director plan. Options granted under the director plan are generally non-transferable during the lifetime of an option holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

*Stock Appreciation Rights.* An SAR entitles the recipient to receive a payment in stock equal to the excess of the fair market value (on the day the SAR is exercised) of a share of the applicable series of LMI common stock with respect to which the SAR was granted over the base price specified in the grant. LMI's board may permit a recipient who is not subject to U.S. federal income tax to receive payments in the form of cash or stock, or a combination of cash and stock, upon the exercise of an SAR. An SAR may be granted to an option holder with respect to all or a portion of the

shares of LMI common stock subject to the related stock option (a tandem SAR) or granted separately to an eligible director (a free-standing SAR). Tandem SARs are exercisable only to the extent that the related stock option is exercisable. Upon the exercise or termination of the related stock option, the related tandem SAR will be automatically cancelled to the extent of the number of shares of LMI common stock with respect to which the related stock option was so exercised or terminated. Free-standing SARs are exercisable at the time and upon the terms and conditions provided in the relevant agreement. The base price of an SAR specified in a grant made after April 1, 2005 may be no less than the fair market value of a share of the applicable series of LMI common stock as of the day the SAR is granted. The base price of a tandem SAR will equal the exercise price of the related stock option. SARs granted under

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the director plan are also generally non-transferable during the lifetime of an SAR holder, except as permitted by will or the laws of descent and distribution or pursuant to a qualified domestic relations order.

*Restricted Shares.* Restricted shares are shares of LMI common stock, or the right to receive shares of LMI common stock, that become vested and may be transferred upon completion of the restriction period. The board determines, and each individual award agreement will provide, (1) whether the restricted shares are issued to the award recipient at the beginning or end of the restriction period, (2) the price, if any, to be paid by the recipient of restricted shares, (3) whether dividend equivalents will be paid during the restriction period in the event that shares are to be issued at the end of the restriction period, (4) whether dividends or distributions paid with respect to shares issued at the beginning of the restriction period will be retained by LMI during the restriction period, (5) whether the holder of the restricted shares may be paid a cash amount any time after the shares become vested, (6) the vesting date or vesting dates (or basis of determining the same) for the award and (7) other terms and conditions of the award. Upon the applicable vesting date, all or the applicable portion of restricted shares will vest, any retained distributions or unpaid dividend equivalents with respect to the restricted shares will vest to the extent that the restricted shares related thereto have vested, and any cash amount to be received by the holder with respect to the restricted shares will become payable, all in accordance with the terms of the individual agreement.

*Stock Units.* Units based upon the fair market value of shares of either series of LMI common stock may also be awarded under the director plan. The board has the power to determine the terms, conditions, restrictions, vesting requirements and payment rules for awards of stock units.

*Awards Generally.* The awards described above may be granted either individually, in tandem or in combination with each other. Under certain conditions, including the occurrence of certain approved transactions, a board change or a control purchase (all as defined in the director plan), options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise. At the time an award is granted, LMI's board will determine, and the relevant agreement will provide for, the vesting or early termination, upon a holder's cessation of membership on LMI's board, of any unvested options, SARs, stock units or restricted shares and the period during which any vested options, SARs and stock units must be exercised. Unless otherwise provided in the relevant agreement, (1) no option or SAR may be exercised after its scheduled expiration date, (2) if the holder's service terminates by reason of death or disability (as defined in the director plan), his or her options or SARs shall remain exercisable for a period of at least one year following such termination (but not later than the scheduled expiration date) and (3) any termination of the holder's service for cause (as defined in the director plan) will result in the immediate termination of all options, SARs and stock units and the forfeiture of all rights to any restricted shares held by such terminated holder. If a holder's service terminates due to death or disability, options and SARs will become immediately exercisable, the restrictions on restricted shares will lapse and stock units will become fully vested, unless individual agreements state otherwise.

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

*Amendment and Termination.* The director plan was approved by LMI's board of directors, and became effective, on May 11, 2004. The director plan was amended and restated on April 1, 2005. The director plan will terminate on May 11, 2014, unless earlier terminated by LMI's board. LMI's board may suspend, discontinue, modify or amend the director plan at any time prior to its termination. However, before an amendment can be made that would adversely affect a participant who has already been granted an award, the participant's consent must be obtained, unless such change is necessary to comply with Section 409A of the Code.

***U.S. Federal Income Tax Consequences***

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

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may apply based upon the circumstances of a particular holder under the incentive plan and the director plan, including the possibility that a holder may not be subject to U.S. federal income taxation.

*Non-Qualified Stock Options; SARs.* Holders will not realize taxable income upon the grant of a non-qualified stock option or an SAR. Upon the exercise of a non-qualified stock option or an SAR, the holder will recognize ordinary income (subject to withholding, if applicable) in an amount equal to the excess of (1) the fair market value on the date of exercise of the shares received over (2) the exercise price (if any) he or she paid for the shares. The holder will generally have a tax basis in any shares of LMI common stock received pursuant to the exercise of an SAR, or pursuant to the cash exercise of a non-qualified stock option, that equals the fair market value of such shares on the date of exercise. Subject to the discussion under *Certain Tax Code Limitations on Deductibility* below, LMI will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with LMI's compensation income recognized by the holder under the foregoing rules. The disposition of the shares of LMI common stock acquired upon exercise of a non-qualified stock option will ordinarily result in capital gain or loss. Under current rulings, if a holder transfers previously held ordinary shares in satisfaction of part or all of the exercise price of a non-qualified stock option, the holder will recognize income with respect to the shares received, but no additional gain will be recognized as a result of the transfer of such previously held shares in satisfaction of the non-qualified stock option exercise price. Moreover, that number of shares received upon exercise that equals the number of previously held shares surrendered in satisfaction of the non-qualified stock option will have a tax basis that equals, and a holding period that includes, the tax basis and holding period of the previously held shares surrendered in satisfaction of the non-qualified stock option exercise price. Any additional shares received upon exercise will have a tax basis that equals the amount of cash (if any) paid by the holder, plus, the amount of ordinary income recognized by the holder with respect to the shares received.

*Cash Awards; Stock Units; Restricted Shares.* A holder will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time such cash is otherwise made available for the holder to draw upon it. A holder will not have taxable income upon the grant of a stock unit but rather will generally recognize ordinary compensation income at the time the holder receives cash in satisfaction of such stock unit or shares of LMI common stock in satisfaction of such stock unit in an amount equal to the fair market value of the shares received. Generally, a holder will not recognize taxable income upon the grant of restricted shares, and LMI will not be entitled to any federal income deduction upon the grant of such award. The value of the restricted shares will generally be taxable to the holder as compensation income in the year or years in which the restrictions on the shares of LMI common stock lapse. Such value will equal the fair market value of the shares on the date or dates the restrictions terminate. A holder, however, may elect pursuant to Section 83(b) of the Code to treat the fair market value of the shares subject to the restricted share award on the date of such grant as compensation income in the year of the grant of the restricted share award. The holder must make such an election pursuant to Section 83(b) of the Code within 30 days after the date of grant. If such an election is made and the holder later forfeits the restricted shares to us, the holder will not be allowed to deduct, at a later date, the amount such holder had earlier included as compensation income.

A holder who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time the holder recognizes income under the rules described above with respect to the cash or the shares of LMI common stock received pursuant to awards. Dividends that are received by a holder prior to the time that the restricted shares are taxed to the holder under the rules described in the preceding paragraph are taxed as additional compensation, not as dividend income. The tax basis of a holder in the shares of LMI common stock received will equal the amount recognized by the holder as compensation income under the rules described in the preceding paragraph, and the holder's holding period in such shares will commence on the date income is so recognized. Subject to the discussion under *Certain Tax Code Limitations on Deductibility* below, LMI will be entitled to a deduction for U.S. federal income tax purposes that corresponds as to timing and amount with LMI's compensation income recognized by the holder under the foregoing rules.

*Section 409A.* Awards under LMI's incentive plan and director plan have features that could cause them to be treated as deferred compensation arrangements. The American Jobs Creation Act of 2004 (which we refer to as the AJCA) significantly alters the tax law relating to nonqualified deferred compensation arrangements, through the adoption of

the new Section 409A of the Code, and imposes significant penalties for noncompliance. Specifically, if a deferred compensation arrangement does not comply with Section 409A, deferred amounts will be taxed currently at the employee's marginal rate, interest will be assessed at the underpayment rate established by the IRS plus one percent measured from the later of the deferral date or the vesting date, and a penalty will be assessed equal to 20% of the taxable amount of compensation. The IRS is expected to promulgate additional regulations and guidelines for employers seeking to comply with new Section 409A of the Code, but such regulations and guidelines are still evolving.

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The incentive plan and the director plan will be administered in a manner that is in good faith compliance with Section 409A and applicable regulations.

We intend that any awards under the incentive plan and the director plan satisfy the applicable requirements of Section 409A. If any plan provision or award would result in the imposition of an additional tax under Section 409A, such plan provision or award will be amended to avoid imposition of the additional tax. No action taken to comply with Section 409A will be deemed to adversely affect the employee's rights under any award.

*Certain Tax Code Limitations on Deductibility.* In order for LMI to deduct the amounts described above, such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses. LMI's ability to obtain a deduction for future payments under the incentive plan could also be limited by Section 280G of the Code, which provides that certain excess parachute payments made in connection with a change of control of an employer are not deductible. LMI's ability to obtain a deduction for amounts paid under the incentive plan could also be affected by Section 162(m) of the Code, which limits the deductibility, for U.S. federal income tax purposes, of compensation paid to certain employees to \$1 million during any taxable year. In order for certain awards under the incentive plan to be eligible for favorable tax treatment under Section 162(m) of the Code, LMI is submitting the incentive plan for the approval of its stockholders at the LMI annual meeting. If the LMI incentive plan proposal is not approved at the LMI annual meeting, awards under the incentive plan will not be eligible for favorable tax treatment under Section 162(m) of the Code. See LMI Annual Business Matter Proposals LMI Incentive Plan Proposal.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information as of December 31, 2004, with respect to shares of LMI common stock authorized for issuance under LMI's equity compensation plans. Information concerning outstanding awards reflects adjustments made to these awards in connection with LMI's July 2004 rights offering.

**EQUITY COMPENSATION PLAN INFORMATION**

| <b>Plan Category</b> | <b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b> | <b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b> | <b>Number of Securities Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the first column)</b> |
|----------------------|--|--|--|
|----------------------|--|--|--|

Equity compensation plans approved by security holders:

Liberty Media International, Inc.  
2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)(1)

|                       |           |          |               |
|-----------------------|-----------|----------|---------------|
| Series A common stock | 438,054   | \$ 33.45 | 18,113,552(2) |
| Series B common stock | 1,568,562 | \$ 36.75 |               |

Liberty Media International, Inc.  
2004 Nonemployee Director Incentive Plan (As Amended and



|  |           |    |       |               |
|--|-----------|----|-------|---------------|
| Restated Effective April 1, 2005)(1)   |           |    |       |               |
| Series A common stock  | 22,152    | \$ | 33.95 | 4,979,000(2)  |
| Series B common stock  |           |    |       |               |
| Liberty Media International, Inc.<br>Transitional Stock Adjustment<br>Plan(1)(3) |           |    |       |               |
| Series A common stock  | 1,241,332 | \$ | 33.92 |               |
| Series B common stock  | 1,498,154 | \$ | 37.88 |               |
| Equity compensation plans not approved by security holders: None                 |           |    |       |               |
| Totals:  |           |    |       |               |
| Series A common stock  | 1,701,538 |    |       | 23,092,552(2) |
| Series B common stock  | 3,066,716 |    |       |               |

- (1) Prior to LMI's spin off from Liberty, Liberty approved each plan in its capacity as the then-sole stockholder of LMI.
- (2) Each plan permits grants of, or with respect to, shares of LMI Series A common stock or LMI Series B common stock subject to a single aggregate limit. The total number of shares available for future issuances under each plan is calculated based upon the number of shares subject to the original awards granted under each plan, prior to

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giving effect to any anti-dilution adjustments to such awards (such as the adjustments made in connection with the July 2004 rights offering).

- (3) The transitional plan was adopted in connection with LMI's spin off from Liberty to provide for the supplemental award of options to purchase shares of LMI common stock and restricted shares of LMI Series A common stock, in each case, pursuant to adjustments made to Liberty stock incentive awards in accordance with the anti-dilution provisions of Liberty's stock incentive plans.

**Security Ownership of Certain Beneficial Owners**

The following table sets forth information, to the extent known by LMI or ascertainable from public filings, concerning shares of LMI common stock beneficially owned by each person or entity (excluding any of LMI's directors and executive officers) known by LMI to own more than five percent of the outstanding shares of LMI common stock.

The security ownership information is given as of March 31, 2005, and in the case of percentage ownership information, is based upon (1) 165,555,331 shares of LMI Series A common stock, and (2) 7,264,300 shares of LMI Series B common stock.

| Name and Address of Beneficial Owner  | Series of<br>Stock           | Number of<br>Shares<br><br>(In<br>thousands) | Percent<br>of<br>Class | Voting<br>Power |
|---|------------------------------|--|------------------------|-----------------|
| Capital Research and Management Company<br>333 South Hope Street<br>Los Angeles, CA 90071 | LMI Series A<br>LMI Series B | 8,418*                                       | 5.0%                   | *               |

\* The number of shares of common stock in the table is based upon the Schedule 13G dated December 31, 2004, filed by Capital Research and Management Company with respect to LMI Series A common stock. Capital Research, an investment advisor, is the beneficial owner of 8,417,960 shares of LMI Series A common stock, as a result of acting as investment advisor to various investments companies, but disclaims beneficial ownership pursuant to Rule 13d-4. The Schedule 13G reflects that Capital Research has no voting power over and sole dispositive power over these shares.

**Security Ownership of Management**

The following table sets forth information with respect to the beneficial ownership by each LMI director and each of the LMI named executive officers and by all of LMI's directors and executive officers as a group of (1) shares of LMI Series A common stock, (2) shares of LMI Series B common stock and (3) shares of UGC Class A common stock.

The security ownership information for LMI common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon (1) 165,555,331 shares of LMI Series A common stock, and (2) 7,264,300 shares of LMI Series B common stock, in each case, outstanding on that date. The security ownership information for UGC Class A common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon 401,894,352 shares of UGC Class A common stock outstanding on that date.

Shares of LMI common stock issuable upon exercise or conversion of options that were exercisable or convertible on or within 60 days after March 31, 2005, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Shares of UGC common stock issuable upon exercise or conversion of options that were exercisable or convertible on or within 60 days after March 31, 2005, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of

computing the percentage ownership of any other person.

For purposes of the following presentation, beneficial ownership of shares of LMI Series B common stock, though convertible on a one-for-one basis into shares of LMI Series A common stock, is reported as beneficial ownership of LMI Series B common stock only, and not as beneficial ownership of LMI Series A common stock. In addition, although outstanding shares of UGC Class B common stock and UGC Class C common stock are convertible into UGC Class A common stock, share data set forth in the following presentation with respect to UGC Class A common stock excludes any dilution associated with the potential conversion of UGC Class B common stock or UGC Class C common stock into UGC Class A common stock.

So far as is known to LMI, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table. The number of shares indicated as owned by the executive officers and directors of LMI includes interests in shares held by UGC's defined contribution 401(k) plan

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(the UGC 401(k) Plan) and shares held by the Liberty 401(k) Savings Plan, in each case as of March 31, 2005. The shares held by the trustees of these 401(k) plans for the benefit of these persons are voted as directed by such persons.

| <b>Name of Beneficial Owner</b>                              | <b>Title of Class</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|--|-----------------------|--|-------------------------|---------------------|
| <b>(In thousands)</b>  |                       |  |                         |                     |
| John C. Malone   | LMI Series A          | 953(1)(2)(4)(5)                                  | *                       | 33.2%               |
|  | LMI Series B          | 8,510(1)(3)(5)                                   | 91.1%                   |                     |
|  | UGC Class A           | 95(6)  | *                       | *                   |
| Miranda Curtis   | LMI Series A          | 85(7)  | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 0  |                         |                     |
| David B. Koff  | LMI Series A          | 65(8)(9)(10)                                     | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 1(11)  |                         |                     |
| David J. Leonard   | LMI Series A          | 2(12)(13)  | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 8(14)  |                         |                     |
| Elizabeth M. Markowski                                       | LMI Series A          | 62(15)(16)(17)(18)                               | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 0(19)  |                         |                     |
| Robert R. Bennett  | LMI Series A          | 240(20)(21)(22)                                  | *                       | 3.1%                |
|  | LMI Series B          | 732(20)(22)                                      | 9.2%                    |                     |
|  | UGC Class A           | 212(23)  | *                       | *                   |
| Donne F. Fisher  | LMI Series A          | 15(24)   | *                       | *                   |
|  | LMI Series B          | 32   | *                       |                     |
|  | UGC Class A           | 0  |                         |                     |
| David E. Rapley  | LMI Series A          | 1(24)  | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 0  |                         |                     |
| M. LaVoy Robison   | LMI Series A          | 1(24)  | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 0  |                         |                     |
| Larry E. Romrell   | LMI Series A          | 13(24)   | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 0  |                         |                     |
| J.C. Sparkman  | LMI Series A          | 14   | *                       | *                   |
|  | LMI Series B          | 0  | *                       | *                   |
|  | UGC Class A           | 0  | *                       | *                   |
| J. David Wargo   | LMI Series A          | 8(25)  | *                       | *                   |
|  | LMI Series B          | 0  |                         |                     |
|  | UGC Class A           | 921(26)  | *                       | *                   |
| All directors and executive officers as a group (14 persons) | LMI Series A          | 1,500(2)(20)(25)(27)(28)(29)(30)                 | *                       | 35.4%               |
|  | LMI Series B          | 9,274(3)(20)(27)(30)                             | 92.1%                   |                     |

UGC Class A

1,242(26)(31)(32)

\*

\*

\* Less than one percent

- (1) Includes 90,303 shares of LMI Series A common stock and 204,566 shares of LMI Series B common stock held by Mr. Malone's wife, Leslie Malone, as to which shares Mr. Malone has disclaimed beneficial ownership.
- (2) Includes 198 shares of LMI Series A common stock held by a trust with respect to which Mr. Malone is the sole trustee and, with his wife, Leslie Malone, retains a unitrust interest in the trust.
- (3) Includes 1,046,546 shares of LMI Series B common stock held by a trust with respect to which Mr. Malone is the sole trustee and holder of a unitrust interest in the trust.
- (4) Includes 46,907 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (5) Includes 221 shares of LMI Series A common stock and 2,072,577 shares of LMI Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

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Mr. Malone has the right to convert options to purchase 504,015 shares of LMI Series B common stock into options to purchase shares of LMI Series A common stock.

- (6) Includes 95,416 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (7) Includes 85,143 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (8) Includes 639 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (9) Includes 1,250 restricted shares of LMI Series A common stock, none of which were vested at March 31, 2005.
- (10) Includes 53,615 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (11) Includes 1,458 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (12) Includes 7 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (13) Includes 1,596 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (14) Includes 3,182 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (15) Includes 136 shares of LMI Series A common stock held by Mrs. Markowski's husband, Thomas Markowski, as to which shares Mrs. Markowski disclaims beneficial ownership.
- (16) Includes 259 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (17) Includes 44 restricted shares of LMI Series A common stock, none of which were vested at March 31, 2005.
- (18) Includes 57,214 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (19) Includes 496 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (20) Includes 75,084 shares of LMI Series A common stock and 24 shares of LMI Series B common stock held by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his wife, Deborah Bennett.
- (21) Includes 1,577 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (22) Includes 12,002 shares of LMI Series A common stock and 731,962 shares of LMI Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.  
Mr. Bennett has the right to convert the options to purchase shares of LMI Series B common stock into options to purchase shares of LMI Series A common stock.
- (23) Includes 83,332 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

- (24) Includes 586 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (25) Includes 7,142 shares of LMI Series A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo disclaims beneficial ownership.
- (26) Includes 498,757 shares of UGC Class A common stock held in various accounts managed by Mr. Wargo, as to which shares Mr. Wargo disclaims beneficial ownership.
- (27) Includes 96,003 shares of LMI Series A common stock and 204,566 shares of LMI Series B common stock held by relatives of certain directors and executive officers, as to which shares beneficial ownership by such directors and executive officers is disclaimed.
- (28) Includes 50,144 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (29) Includes 1,294 restricted shares of LMI Series A common stock, none of which were vested at March 31, 2005.
- (30) Includes 247,102 shares of LMI Series A common stock and 2,804,539 shares of LMI Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. The options to purchase 1,235,977 shares of LMI Series B common stock may be converted into options to purchase shares of LMI Series A common stock.
- (31) Includes 7,701 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (32) Includes 178,748 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.

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One of LMI's directors and two of its executive officers also hold interests in Liberty Jupiter, Inc., one of LMI's privately held subsidiaries. Mr. Bennett, Ms. Curtis, another executive officer and another individual hold 180, 320, 200 and 100 shares, respectively, of Class A common stock of Liberty Jupiter, representing a 20% aggregate common equity interest and less than 1% aggregate voting interest in Liberty Jupiter, based upon 800 shares of Liberty Jupiter Class A common stock, 3,198 shares of Liberty Jupiter Class B common stock, 2 shares of Liberty Jupiter Class C common stock and approximately 93,379 shares of Liberty Jupiter preferred stock outstanding, as of March 31, 2005. Pursuant to a stockholders' agreement among LMI, Liberty Jupiter and certain of Liberty Jupiter's stockholders, LMI has the right to cause all or any part of the Liberty Jupiter Class A common stock to be converted into shares of LMI Series A common stock. On or after April 24, 2005, each holder of Liberty Jupiter Class A common stock will have the right to cause all of the shares of Liberty Jupiter Class A common stock held by such holder to be converted into shares of LMI Series A common stock. Each share of Liberty Jupiter Class A common stock that is converted will be converted into that number of shares of LMI Series A common stock having an aggregate market price that is equal to the fair market value of the Liberty Jupiter Class A common stock so converted, as of the time of conversion. Liberty Jupiter owns an approximate 7.96% interest in LMI's consolidated subsidiary, LMI/ Sumisho SuperMedia, LLC.



**Table of Contents****Stock Performance Graphs**

The following graph compares the percentage change from June 8, 2004, the date on which regular way trading in LMI common stock began, to December 31, 2004, in the cumulative total stockholder return (assuming reinvestment of dividends) on LMI Series A common stock, LMI Series B common stock, the Nasdaq Composite Index and a peer group of companies based on the Nasdaq Telecommunications Index. The graph assumes that \$100 was invested on June 8, 2004. The stock prices of LMI Series A and Series B common stock on June 8, 2004 have been reduced to give effect to the rights distributed to LMI stockholders on July 26, 2004.

|                                 | <b>June 8,<br/>2004</b> | <b>December 31,<br/>2004</b> |
|---------------------------------|-------------------------|------------------------------|
| LMI Series A                    | \$ 100                  | \$ 127                       |
| LMI Series B                    | 100                     | 127                          |
| Nasdaq Telecommunications Index | 100                     | 102                          |
| Nasdaq Composite Index          | 100                     | 108                          |

**Pro Forma Security Ownership Information of LMI Management**

The following table sets forth information with respect to the estimated beneficial ownership by each LMI director, each of the LMI named executive officers and all of LMI's directors and executive officers as a group of shares of Liberty Global Series A common stock and Liberty Global Series B common stock, assuming that the mergers had been effected on March 31, 2005.

If the mergers are effected, (1) each share of LMI Series A common stock and LMI Series B common stock will be converted into one share of the corresponding series of Liberty Global common stock, and (2) each share of UGC common stock will be converted into the right to receive 0.2155 of a share of Liberty Global Series A common stock or \$9.58 in cash, subject to proration. For purposes of the following presentation, we have assumed that none of LMI's directors and executive officers elect to receive cash for their shares of UGC common stock in the mergers. In addition, although shares of LMI Series B common stock are convertible on a one-for-one basis into shares of LMI Series A common stock, we have assumed, for purposes of this presentation, that no shares of LMI Series B common stock were converted into shares of LMI Series A common stock prior to the assumed merger date of March 31, 2005. The security ownership information for Liberty Global common stock has been estimated based upon outstanding stock information for LMI common stock and UGC common stock as of March 31, 2005, and, in the case of percentage ownership information, has been estimated based upon 244,903,956 shares of Liberty Global Series A common stock and 7,264,300 shares of Liberty Global Series B common stock estimated to have been issued in the mergers (assuming no cash elections were made by any UGC stockholders).

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Shares of Liberty Global common stock deemed to be issuable within 60 days of March 31, 2005 upon exercise of options, conversion of convertible securities, exchange of exchangeable securities or upon vesting of restricted stock awards are deemed to be outstanding for the purpose of computing the percentage ownership and aggregate voting power of persons expected to beneficially own such securities, but have not been deemed to be outstanding for the purpose of computing the percentage ownership or aggregate voting power of any other person.

So far as is known to LMI, the persons indicated below would have sole voting power with respect to the shares estimated to be owned by them, except as otherwise stated in the notes to the table. The number of shares indicated as owned by the executive officers and directors of LMI includes interests in shares held by the UGC 401(k) Plan and shares held by the Liberty 401(k) Savings Plan, in each case as of March 31, 2005. The shares held by the trustees of these 401(k) plans for the benefit of these persons are voted as directed by such persons.

| <b>Name of Beneficial Owner</b>                              | <b>Title of Class</b>   | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|--|-------------------------|--|-------------------------|---------------------|
|  |                         | <b>(In thousands)</b>                            |                         |                     |
| John C. Malone   | Liberty Global Series A | 974(1)   | *                       | 23.1%               |
|  | Liberty Global Series B | 8,510(2)   | 91.1%                   |                     |
| Miranda Curtis   | Liberty Global Series A | 85(3)  | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| David B. Koff  | Liberty Global Series A | 65(4)  | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| David J. Leonard   | Liberty Global Series A | 3(5)   | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| Elizabeth M. Markowski                                       | Liberty Global Series A | 62(6)  | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| Robert R. Bennett  | Liberty Global Series A | 285(7)   | *                       | 2.1%                |
|  | Liberty Global Series B | 732(8)   | 9.2%                    |                     |
| Donne F. Fisher  | Liberty Global Series A | 15(9)  | *                       | *                   |
|  | Liberty Global Series B | 32   | *                       |                     |
| David E. Rapley  | Liberty Global Series A | 1(9)   | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| M. LaVoy Robison   | Liberty Global Series A | 1(9)   | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| Larry E. Romrell   | Liberty Global Series A | 13(9)  | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| J.C. Sparkman  | Liberty Global Series A | 14   | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| J. David Wargo   | Liberty Global Series A | 206(10)  | *                       | *                   |
|  | Liberty Global Series B | 0  |                         |                     |
| All directors and executive officers as a group (14 persons) | Liberty Global Series A | 1,768(11)  | *                       | 25.4%               |
|  | Liberty Global Series B | 9,274(12)  | 92.1%                   |                     |

\* Less than one percent

- (1) See footnotes 1, 2, 4, 5 and 6 in Management of LMI Security Ownership of Management.
- (2) See footnotes 1, 3 and 5 in Management of LMI Security Ownership of Management.
- (3) See footnote 7 in Management of LMI Security Ownership of Management.
- (4) See footnotes 8, 9, 10 and 11 in Management of LMI Security Ownership of Management.
- (5) See footnotes 12, 13 and 14 in Management of LMI Security Ownership of Management.
- (6) See footnotes 15, 16, 17, 18 and 19 in Management of LMI Security Ownership of Management.
- (7) See footnotes 20, 21, 22 and 23 in Management of LMI Security Ownership of Management.
- (8) See footnotes 20 and 22 in Management of LMI Security Ownership of Management.
- (9) See footnote 24 in Management of LMI Security Ownership of Management.
- (10) See footnote 25 and 26 in Management of LMI Security Ownership of Management.
- (11) See footnotes 2, 20, 25, 26, 27, 28, 29, 30, 31 and 32 in Management of LMI Security Ownership of Management.

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(12) See footnotes 3, 20, 27 and 30 in Management of LMI Security Ownership of Management.

**Current Management of Liberty Global, LMI Merger Sub and UGC Merger Sub**

Each of Liberty Global, LMI Merger Sub and UGC Merger Sub currently has two directors, Messrs. Malone and Bennett, and two officers, Mr. Malone who serves as President and Ms. Markowski who serves as Secretary. Biographical and other information about Messrs. Malone and Bennett and Ms. Markowski can be found above under Executive Officers and Directors.

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**EXECUTIVE OFFICERS, DIRECTORS AND PRINCIPAL STOCKHOLDERS OF UGC**

**Executive Officers and Directors**

The name and present principal occupation of each executive officer and director of UGC is set forth below. Unless otherwise noted, the business address for each person listed below is c/ o UnitedGlobalCom, Inc., 4643 South Ulster Street, Suite 1300, Denver, Colorado 80237. To the knowledge of UGC, all executive officers and directors listed below are United States citizens.

| <b>Name</b>                 | <b>Positions</b>   |
|-----------------------------|--|
| Gene W. Schneider           | Chairman of the Board of UGC and its predecessors since 1989. Mr. Schneider also served as Chief Executive Officer of UGC and its predecessors from 1995 to January 2004. Mr. Schneider has served as an officer and/or director of various direct and indirect subsidiaries of UGC. In addition, from 1995 until 1999, Mr. Schneider served as a member of the UPC Supervisory Board, and an advisor to the Supervisory Board of UPC from 1999 until September 2003. Mr. Schneider has been with UGC and its predecessors since 1989. Mr. Schneider is also a director of Austar United.  |
| Michael T. Fries            | Chief Executive Officer of UGC since January 2004. Mr. Fries has served as a director of UGC and its predecessors since November 1999 and as President of UGC and its predecessors since September 1998. He also served as Chief Operating Officer of UGC and its predecessors from September 1998 to January 2004. In addition, he serves or has served as an officer and/or director of various direct and indirect subsidiaries and affiliates of UGC, including as a member of the UPC Supervisory Board from September 1998 until September 2003 and as Chairman thereof from February 1999 until September 2003, member of the Priority Telecom Supervisory Board since November 2000 and as Chairman thereof since March 2003 and as a director of Austar United since June 1999. He served as Chairman of Austar United from June 1999 to April 2003. Mr. Fries has been with UGC and its predecessors since 1990. |
| Frederick G. Westerman, III | Chief Financial Officer of UGC and its predecessors since June 1999 and UGC's Co-Chief Financial Officer since February 2004. Mr. Westerman's responsibilities include oversight and planning of UGC's financial and treasury operations. He also serves as an officer and/or director of various direct and indirect subsidiaries of UGC.   |
| Charles H.R. Bracken        | Co-Chief Financial Officer of UGC since February 2004. Mr. Bracken has served as the Chief Financial Officer of UGC Europe and its predecessors since November 1999. Mr. Bracken served as a member of the UPC Board of Management from July 1999 to September 2003. Prior to November 1999, Mr. Bracken served as the Managing Director of Strategy, Acquisitions and Corporate Development at UPC from March 1999. Mr. Bracken also serves as an officer and/or director of various European subsidiaries, including as a member of the Priority Telecom Supervisory Board since July 2000.  |
| Gene M. Musselman           | President and Chief Operating Officer of UPC Broadband Division of UGC Europe, Inc., a subsidiary of UGC, since September 2003. Mr. Musselman has served as UPC's Chief Operating Officer since  |

April 2000, and he served as a member of its Board of Management from June 2000 to September 2003. He also served as managing director of UPC from July 2003 until June 2004. Mr. Musselman serves as an officer and/or director of various European subsidiaries of UGC. Except when he was at Tevecap S.A. from 1995 to 1997, Mr. Musselman has been with UGC and its affiliates since 1991.

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| <b>Name</b>  | <b>Positions</b>   |
|--|--|
| Shane O Neill  | Chief Strategy Officer of UGC Europe since September 2003. He has served as UPC's Chief Strategy Officer since June 2000. Mr. O Neill served as a member of the UPC Board of Management from June 2000 to September 2003. From November 1999 to June 2000, Mr. O Neill served as the Managing Director, Strategy, Acquisitions and Corporate Development at UPC. Mr. O Neill is a director of SBS Broadcasting S.A., a public company in which UGC has a 19.3% interest.   |
| Robert R. Bennett <i>c/o Liberty Media Corporation</i><br><i>12300 Liberty Boulevard</i><br><i>Englewood, Colorado 80112</i>         | A director of UGC since January 2002. Mr. Bennett has served as President and Chief Executive Officer of Liberty since April 1997, and he held various other executive positions with Liberty since its inception in 1990. Mr. Bennett served as Executive Vice President of TCI from April 1997 to March 1999. Mr. Bennett is a Vice-Chairman of the Board and a director of LMI and is also a director of Liberty and OpenTV Corp.   |
| John P. Cole, Jr.  | A director of UGC and its predecessors since March 1998. Mr. Cole served as a member of the UPC Supervisory Board from February 1999 to September 2003. Mr. Cole is a founder of the Washington, D.C. law firm of Cole, Raywid and Braverman, which specializes in all aspects of telecommunications and media law.  |
| John W. Dick   | A director of UGC since March 2003. Mr. Dick served as a member of the UPC Supervisory Board from May 2001 to September 2003 and as a director of UGC Europe from September 2003 to January 2004. He is the non-executive Chairman and a director of Hooper Industries Group, a privately held U.K. group consisting of: Hooper and Co (Coachbuilders) Ltd. (building special/ bodied Rolls Royce and Bentley motorcars) and Hooper Industries (China) (providing industrial products and components to Europe and the U.S.). Until 2002, Hooper Industries Group also held Metrocab UK (manufacturing London taxicabs) and Moscab (a joint venture with the Moscow city government, producing left-hand drive Metrocabs for Russia). Mr. Dick has held his positions with Hooper Industries Group since 1984. Mr. Dick is also a director of Austar United. |
| Bernard G. Dvorak <i>c/o Liberty Media International, Inc.</i><br><i>12300 Liberty Boulevard</i><br><i>Englewood, Colorado 80112</i> | A director of UGC since November 2004. Mr. Dvorak has served as a director of various subsidiaries of UGC since January 2005. Mr. Dvorak has served as Senior Vice President and Controller of LMI since March 2004. From July 2002 until May 2004, Mr. Dvorak served as Senior Vice President, Chief Financial Officer and Treasurer of On Command Corporation, a subsidiary of Liberty. Mr. Dvorak was the Chief Executive Officer and member of the board of directors of Formus, a provider of fixed wireless services in Europe, from September 2000 until June 2002, and, from April 1999 until September 2000, he served as Chief Financial Officer of Formus.  |
| Paul A. Gould <i>Allen &amp; Company L.L.C.</i><br><i>711 5th Avenue, 8th Floor</i><br><i>New York, New York 10022</i>               | A director of UGC since January 2004. Mr. Gould has served as Managing Director of Allen & Company L.L.C., an investment banking services company, and has been associated with Allen &  |

Gary S. Howard

David B. Koff *c/o Liberty Media  
International, Inc.  
12300 Liberty Boulevard  
Englewood, Colorado 80112*

Company and its affiliates for more than the last five years. Mr. Gould is also a director of Ampco-Pittsburgh Corporation and Liberty. A director of UGC since January 2002. Mr. Howard served as Executive Vice President and Chief Operating Officer of Liberty from July 1998 to February 2004. Mr. Howard served as Chief Executive Officer of Liberty Satellite & Technology, Inc. from December 1996 to April 2000.

A director of UGC since August 2003. Mr. Koff has served as Senior Vice President of LMI since March 2004. Mr. Koff served as a Senior Vice President of Liberty from February 1998 through March 2004.



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| <b>Name</b>  | <b>Positions</b>  |
|--|---|
| <p>John C. Malone <i>c/o Liberty Media International, Inc.</i><br/> 12300 Liberty Boulevard<br/> Englewood, Colorado 80112</p> | <p>A director of UGC and its predecessors since November 1999. Mr. Malone has served as President, Chief Executive Officer, Chairman of the Board and a director of LMI since March 2004. Mr. Malone has served as Chairman of the Board of Liberty since 1990. Mr. Malone served as Chairman of the Board and a director of Liberty Satellite &amp; Technology, Inc. from December 1996 to August 2000. Mr. Malone also served as Chairman of the Board of TCI from November 1996 to March 1999 and as Chief Executive Officer of TCI from January 1994 to March 1999. Mr. Malone is also a director of The Bank of New York, Cablevision Systems Corporation and Liberty.</p> |

Gene W. Schneider is the father of Mark L. Schneider, who was a named executive officer of UGC until December 31, 2004. There are no other family relations among the above named individuals, by blood, marriage or adoption.

During the past five years, none of the above persons was convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or was party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

**Involvement in Certain Proceedings**

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

On March 28, 2001, an involuntary petition under Chapter 7 of the U.S. Bankruptcy Code was filed against Formus in the United States Bankruptcy Court for the District of Colorado. Mr. Dvorak was a director and the Chief Executive Officer of Formus from September 2000 until June 2002.

On March 29, 2002, UAP, then a subsidiary of UGC, filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States District Court for the Southern District of New York. UAP's reorganization closed on June 27, 2003, and UAP has since dissolved. Until February 11, 2002, Mr. Fries was a director and the President of UAP and, until November 14, 2001, Mr. Schneider was a director and Chief Executive Officer of UAP. Mr. Westerman was a director of UAP from November 2001 and President thereof from March 2002 until UAP's dissolution in January 2004.

On December 3, 2002, UPC, now a subsidiary of UGC Europe, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code, together with a pre-negotiated plan of reorganization, in the United States District Court of the Southern District of New York. In conjunction with such filing, also on December 3, 2002, UPC commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law with the filing of a proposed plan of compulsory composition or the Akkoord with the Amsterdam Court (Rechtbank) under the Dutch Faillissementswet. These actions were completed on September 3, 2003, when UGC Europe acquired more than 99% of the stock of, and became a successor issuer to UPC. Messrs. Fries, Cole and Dick were Supervisory Directors of UPC and Mr. Schneider was an advisor to UPC's Supervisory Board. Also, Messrs. Bracken, Musselman and O'Neill were members of the UPC Board of Management.

In June 2003, UPC Polska, Inc. executed an agreement with some of its creditors to restructure its balance sheet. On January 22, 2004, the U.S. Bankruptcy Court confirmed UPC Polska's Chapter 11 plan of reorganization. On February 18, 2004, UPC Polska emerged from the Chapter 11 proceedings. Mr. Musselman is a director of UPC Polska.

On January 12, 2004, UGC's predecessor (Old UGC), filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On November 10,

2004, the U.S. Bankruptcy Court confirmed Old UGC's plan of reorganization and Old UGC emerged from the Chapter 11 proceedings on November 18, 2004. Until August 2003, Mr. Fries was the President of Old UGC, and Mr. Schneider was a director and Chief Executive Officer of Old UGC. Mr. Westerman has served as a director of Old UGC since August 2003 and as President thereof since November 2003.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth information with respect to the beneficial ownership (1) by each UGC director, each of the UGC named executive officers (as defined in UGC's Annual Report on Form 10-K/A for the year ended

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December 31, 2004) and all of UGC's directors and executive officers as a group of shares of all classes of UGC common stock and both series of LMI common stock, and (2) by each stockholder who is known by UGC to own beneficially more than five percent of any class of UGC common stock. None of UGC's directors or the UGC named executive officers beneficially owns any equity securities of any subsidiary of UGC.

At the election of the holder, shares of UGC Class B common stock are convertible immediately into shares of UGC Class A common stock on a one-for-one basis, and shares of UGC Class C common stock are convertible on a one-for-one basis into either shares of UGC Class A common stock or shares of UGC Class B common stock. For purposes of the following presentation, beneficial ownership of shares of UGC Class B common stock and UGC Class C common stock is reported as beneficial ownership of UGC Class B common stock and UGC Class C common stock, respectively, only, and not as beneficial ownership of any other class of UGC common stock. In addition, beneficial ownership of shares of LMI Series B common stock, though convertible on a one-for-one basis into shares of LMI Series A common stock, is reported as beneficial ownership of LMI Series B common stock only, and not as beneficial ownership of LMI Series A common stock.

The security ownership information for UGC common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon (1) 401,894,352 shares of UGC Class A common stock, (2) 10,493,461 shares of UGC Class B common stock, and (3) 379,603,223 shares of UGC Class C common stock, in each case, outstanding on that date. The security ownership information for LMI common stock is given as of March 31, 2005, and, in the case of percentage ownership information, is based upon (1) 165,555,331 shares of LMI Series A common stock, and (2) 7,264,300 shares of LMI Series B common stock, in each case, outstanding on that date.

Shares of UGC common stock issuable within 60 days of March 31, 2005 upon exercise of options, conversion of convertible securities, exchange of exchangeable securities or upon vesting of restricted stock awards are deemed to be outstanding for the purpose of computing the percentage ownership and aggregate voting power of persons beneficially owning such securities, but have not been deemed to be outstanding for the purpose of computing the percentage ownership or aggregate voting power of any other person. Shares of LMI common stock issuable upon exercise or conversion of options that were exercisable or convertible on or within 60 days after March 31, 2005, are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of the person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

So far as is known to UGC, the persons indicated below have sole voting power with respect to the shares indicated as owned by them, except as otherwise stated in the notes to the table. The number of shares indicated as owned by the executive officers and directors of UGC, includes interests in shares held by the UGC 401(k) Plan and shares held by the Liberty 401(k) Savings Plan, in each case as of March 31, 2005. The shares held by the trustees of the 401(k) plans for the benefit of these persons are voted as directed by such persons.

| <b>Name of Beneficial Owner</b> | <b>Title of Class</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|---------------------------------|-----------------------|--|-------------------------|---------------------|
| <b>(In thousands)</b>           |                       |  |                         |                     |
| Robert R. Bennett               | UGC Class A           | 212(1)(2)  | *                       | *                   |
|                                 | LMI Series A          | 240(3)(4)(5)                                     | *                       | 3.1%                |
|                                 | LMI Series B          | 732(3)(5)  | 9.2%                    |                     |
| Charles H.R. Bracken            | UGC Class A           | 3(6)   | *                       | *                   |
|                                 | LMI Series A          | 0  |                         |                     |
|                                 | LMI Series B          | 0  |                         |                     |
| John P. Cole, Jr.               | UGC Class A           | 384(7)   | *                       | *                   |
|                                 | LMI Series A          | 1  | *                       | *                   |

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|                   |              |               |   |   |
|-------------------|--------------|---------------|---|---|
|                   | LMI Series B | 0             |   |   |
| John W. Dick      | UGC Class A  | 54(8)         | * | * |
|                   | LMI Series A | 0             |   |   |
|                   | LMI Series B | 0             |   |   |
| Bernard G. Dvorak | UGC Class A  | 3(9)          | * | * |
|                   | LMI Series A | 0(10)         | * | * |
|                   | LMI Series B | 0             |   |   |
| Michael T. Fries  | UGC Class A  | 2,502(11)(12) | * | * |
|                   | LMI Series A | 0             |   |   |
|                   | LMI Series B | 0             |   |   |

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| <b>Name of Beneficial Owner</b>                 | <b>Title of Class</b> | <b>Amount and Nature of Beneficial Ownership</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|---|-----------------------|--|-------------------------|---------------------|
| <b>(In thousands)</b>                           |                       |  |                         |                     |
| Paul A. Gould                                   | UGC Class A           | 183(13)  | *                       | *                   |
|   | LMI Series A          | 101(14)  | *                       | *                   |
|   | LMI Series B          | 43   | *                       |                     |
| Gary S. Howard                                  | UGC Class A           | 83(15)   | *                       | *                   |
|   | LMI Series A          | 389(16)(17)                                      | *                       | *                   |
|   | LMI Series B          | 0  |                         |                     |
| David B. Koff                                   | UGC Class A           | 0  |                         |                     |
|   | LMI Series A          | 65(18)(19)(20)                                   | *                       | *                   |
|   | LMI Series B          | 0  |                         |                     |
| John C. Malone                                  | UGC Class A           | 95(21)   | *                       | *                   |
|   | LMI Series A          | 953(22)(23)(25)(26)                              | *                       | 33.2%               |
|   | LMI Series B          | 8,510(22)(24)(26)                                | 91.1%                   |                     |
| Gene M. Musselman                               | UGC Class A           | 53(27)(28)                                       | *                       | *                   |
|   | LMI Series A          | 0  |                         |                     |
|   | LMI Series B          | 0  |                         |                     |
| Shane O Neill                                   | UGC Class A           | 3(6)   |                         |                     |
|   | LMI Series A          | 0  |                         |                     |
|   | LMI Series B          | 0  |                         |                     |
| Gene W. Schneider                               | UGC Class A           | 2,046(29)(30)                                    | *                       | *                   |
|   | UGC Class B           | 2,901(31)  | 21.7%                   |                     |
|   | LMI Series A          | 526(32)(33)                                      | *                       | *                   |
|   | LMI Series B          | 0  |                         |                     |
| Frederick G. Westerman III                      | UGC Class A           | 874(34)  | *                       | *                   |
|   | LMI Series A          | 0  |                         |                     |
|   | LMI Series B          | 0  |                         |                     |
| All directors and executive officers as a group | UGC Class A           | 6,497(2)(12)(30)(35)                             | 1.6%                    | *                   |
|   | UGC Class B           | 2,901(31)  | 21.7%                   |                     |
|   | LMI Series A          | 2,276(3)(5)(17)(19)(22)(23)(24)(26)(32)(36)      | 1.4%                    | 35.7%               |
|   | LMI Series B          | 9,285(3)(5)(22)(24)(26)                          | 92.2%                   |                     |
| LMI(37)   | UGC Class A           | 35,829   | 9.0%                    | 91.0%               |
|   | UGC Class B           | 10,493   | 100.0%                  |                     |
|   | UGC Class C           | 377,462  | 99.4%                   |                     |
| Capital Research and Management Company(38)     | UGC Class A           | 55,909   | 13.9%                   | *                   |
| Credit Suisse First Boston(39)                  | UGC Class A           | 39,286   | 9.8%                    | *                   |
| Openheimer Funds, Inc.(40)                      | UGC Class A           | 31,380   | 7.8%                    | *                   |

\* Less than one percent.

- (1) Includes 83,332 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (2) Includes 128,186 shares of UGC Class A common stock owned by Hilltop Investments, Inc., which is jointly owned by Mr. Bennett and his spouse.
- (3) Includes 75,084 shares of LMI Series A common stock and 24 shares of LMI Series B common stock held by Hilltop Investments, Inc. which is jointly owned by Mr. Bennett and his spouse.
- (4) Includes 1,577 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (5) Includes 12,002 shares of LMI Series A common stock and 731,962 shares of LMI Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. Mr. Bennett has the right to convert the options to purchase shares of LMI Series B common stock into options to purchase shares of LMI Series A common stock.
- (6) Includes 3,689 restricted shares of UGC Class A common stock that will vest within 60 days of March 31, 2005.

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- (7) Includes 205,416 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (8) Includes 54,166 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (9) Includes 2,032 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (10) Includes 372 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (11) Includes 2,468,500 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, 6,318 restricted shares of UGC Class A common stock that will vest within 60 days of March 31, 2005 and 8,744 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (12) Includes 210 shares of UGC Class A common stock held by his spouse.
- (13) Includes 33,333 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (14) Includes 586 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (15) Includes 83,332 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (16) Includes 2,229 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan and 302,640 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (17) Includes 20,940 shares of LMI Series A common stock held by a Grantor Retained Annuity Trust. Also includes 614 shares of LMI Series A common stock owned by his spouse of which Mr. Howard disclaims beneficial ownership and 11,108 shares of LMI Series A common stock held by a Grantor Retained Annuity Trust of which Mr. Howard disclaims beneficial ownership.
- (18) Includes 639 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (19) Includes 1,250 restricted shares of LMI Series A common stock, none of which were vested at March 31, 2005.
- (20) Includes 53,615 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (21) Includes 95,416 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (22) Includes 90,303 shares of LMI Series A common stock and 204,566 shares of LMI Series B common stock held by Mr. Malone's spouse, as to which shares Mr. Malone has disclaimed beneficial ownership.
- (23)

Includes 198 shares of LMI Series A common stock held by a trust with respect to which Mr. Malone is the sole trustee and, with his wife, Leslie Malone, retains a unitrust interest in the trust.

- (24) Includes 1,046,546 shares of LMI Series B common stock held by a trust with respect to which Mr. Malone is the sole trustee and holder of a unitrust interest in the trust.
- (25) Includes 46,907 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan.
- (26) Includes 221 shares of LMI Series A common stock and 2,072,577 shares of LMI Series B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005. Mr. Malone has the right to convert options to purchase 504,015 shares of LMI Series B common stock into options to purchase shares of LMI Series A common stock.
- (27) Includes 8,533 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (28) Includes 40,000 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, and 3,689 restricted shares of UGC Class A common stock that will vest within 60 days of March 31, 2005.
- (29) Includes 1,766,341 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, and 10,404 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (30) Includes 712 shares of UGC Class A common stock held by a trust of which Mr. Schneider is a beneficiary and a trustee and 66 shares of UGC Class A common stock held by his spouse.



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- (31) Includes 2,900,702 shares of UGC Class B common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005.
- (32) Includes 199,261 shares of LMI Series A common stock held by G. Schneider Holdings, LLP of which Mr. Schneider is the general partner, 1,155 shares of LMI Series A common stock held by a trust of which Mr. Schneider is a beneficiary and a trustee, 1,577 shares of LMI Series A common stock held by his spouse, and an aggregate of 1,555 shares of LMI Series A common stock held by separate trusts for the benefit of his children and two of his grandchildren, respectively, of which Mr. Schneider is the sole trustee.
- (33) Includes 68 shares of LMI Series A common stock held by the UGC 401(k) Plan.
- (34) Includes 865,000 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, 2,305 restricted shares of UGC Class A common stock that will vest within 60 days of March 31, 2005, and includes 6,765 shares of UGC Class A common stock held by the UGC 401(k) Plan.
- (35) Includes 5,694,836 shares of UGC Class A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, 19,690 restricted shares of UGC Class A common stock that will vest within 60 days of March 31, 2005, and 36,478 shares of UGC Class A common stock held by the UGC 401(k) Plan for the benefit of the directors and executive officers.
- (36) Includes 369,436 shares of LMI Series A common stock that are subject to options which were exercisable as of, or will be exercisable within 60 days of, March 31, 2005, 51,352 shares of LMI Series A common stock held by the Liberty 401(k) Savings Plan and 68 shares of LMI Series A common stock held by the UGC 401(k) Savings Plan.
- (37) The number of shares of UGC Class A common stock, UGC Class B common stock and UGC Class C common stock in the table is based upon Amendment No. 1 to the Schedule 13D dated January 17, 2005, filed by LMI. The address of LMI is 12300 Liberty Boulevard, Englewood, Colorado 80112. Robert R. Bennett, Bernard G. Dvorak, David B. Koff, and John C. Malone, all directors of UGC, are also officers and/or directors of LMI.
- (38) The number of shares of UGC Class A common stock in the table is based upon Amendment No. 8 to the Schedule 13G dated December 31, 2004, filed by Capital Research and Management Company and The Growth Fund of America, Inc. with respect to the UGC Class A common stock. Capital Research, an investment advisor, is the beneficial owner of 55,909,250 shares of UGC Class A common stock, as a result of acting as investment advisor to various investments companies, but disclaims beneficial ownership pursuant to Rule 13d-4. Growth Fund, an investment company advised by Capital Research, is the beneficial owner of 25,200,000 shares of UGC Class A common stock. The Schedule 13G reflects that Capital Research has no voting power over said shares and sole dispositive power over the shares of UGC Class A common stock and that Growth Fund has sole voting power over its shares but no dispositive power. The address of Capital Research and Growth Fund is 333 South Hope Street, Los Angeles, CA 90071.
- (39) The number of shares of UGC Class A common stock in the table is based upon a Schedule 13G dated December 31, 2004, filed by Credit Suisse First Boston on behalf of Credit Suisse First Boston business unit ( CSFB ). CSFB is a bank and provides financial advisory services and through Credit Suisse Asset Management provides asset management and investment advisory services. CSFB also filed as a parent holding company or control person. Its ultimate parent is Credit Suisse Group, which disclaims beneficial ownership of the shares reported by CSFB. The Schedule 13G reflects that CSFB has shared voting and shared dispositive powers over the UGC Class A common stock. The address of CSFB is: Uetlibergstrasse 231, P.O. Box 900, CH 8070 Zurich,

Switzerland. The address of Credit Suisse Group is: Paradeplatz 8, P.O. Box 1, CH 8070 Zurich, Switzerland.

- (40) The number of shares of UGC Class A common stock in the table is based upon a Schedule 13G dated December 31, 2004, filed by OppenheimerFunds, Inc. OppenheimerFunds is an investment advisor and disclaims beneficial ownership pursuant to Rule 13d-4 of the Exchange Act of 1934. The Schedule 13G reflects that OppenheimerFunds has no voting power and shared dispositive power over the UGC Class A common stock. The address of OppenheimerFunds is 225 Liberty Street, 11th Floor, New York, NY 10018.

**Pro Forma Security Ownership Information of UGC Management**

The following table sets forth information with respect to the estimated beneficial ownership by each UGC director, each of the UGC named executive officers (as defined in UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004) and all of UGC's directors and executive officers as a group of shares of Liberty Global Series A

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common stock and Liberty Global Series B common stock, assuming that the mergers had been effected on March 31, 2005.

If the mergers are effected, (1) each share of UGC common stock will be converted into the right to receive 0.2155 of a share of Liberty Global Series A common stock or \$9.58 in cash, subject to proration, and (2) each share of LMI Series A common stock and LMI Series B common stock will be converted into one share of the corresponding series of Liberty Global common stock. For purposes of the following presentation, we have assumed that none of UGC's directors and executive officers elect to receive cash for their shares of UGC common stock in the mergers. In addition, although shares of LMI Series B common stock are convertible on a one-for-one basis into shares of LMI Series A common stock, we have assumed, for purposes of this presentation, that no shares of LMI Series B common stock were converted into shares of LMI Series A common stock prior to the assumed merger date of March 31, 2005. The security ownership information for Liberty Global common stock has been estimated based upon outstanding stock information for LMI common stock and UGC common stock as of March 31, 2005, and, in the case of percentage ownership information, has been estimated based upon 244,903,956 shares of Liberty Global Series A common stock and 7,264,300 shares of Liberty Global Series B common stock estimated to have been issued in the mergers (assuming no cash elections had been made by any UGC stockholders).

Shares of Liberty Global common stock deemed to be issuable within 60 days of March 31, 2005 upon exercise of options, conversion of convertible securities, exchange of exchangeable securities or upon vesting of restricted stock awards are deemed to be outstanding for the purpose of computing the percentage ownership and aggregate voting power of persons expected to beneficially own such securities, but have not been deemed to be outstanding for the purpose of computing the percentage ownership or aggregate voting power of any other person.

So far as is known to UGC, the persons indicated below would have sole voting power with respect to the shares estimated to be owned by them, except as otherwise stated in the notes to the table. The number of shares indicated as owned by the executive officers and directors of UGC includes interests in shares held by the UGC 401(k) Plan and shares held by the Liberty 401(k) Savings Plan, in each case as of March 31, 2005. The shares held by the trustees of these 401(k) plans for the benefit of these persons are voted as directed by such persons.

| <b>Name of Beneficial Owner</b> | <b>Title of Class</b>   | <b>Amount and Nature of Beneficial Ownership (In thousands)</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|---------------------------------|-------------------------|---|-------------------------|---------------------|
| Robert R. Bennett               | Liberty Global Series A | 285(1)  | *                       | 2.1%                |
|                                 | Liberty Global Series B | 732(2)  | 9.2%                    |                     |
| Charles H.R. Bracken            | Liberty Global Series A | 1(3)  | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |
| John P. Cole, Jr.               | Liberty Global Series A | 84(4)   | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |
| John W. Dick                    | Liberty Global Series A | 12(5)   | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |
| Bernard G. Dvorak               | Liberty Global Series A | 1(6)  | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |
| Michael T. Fries                | Liberty Global Series A | 539(7)  | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |
| Paul A. Gould                   | Liberty Global Series A | 141(8)  | *                       | *                   |
|                                 | Liberty Global Series B | 43  | *                       |                     |
| Gary S. Howard                  | Liberty Global Series A | 407(9)  | *                       | *                   |
|                                 | Liberty Global Series B | 0   |                         |                     |

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|                   |                         |           |       |       |
|-------------------|-------------------------|-----------|-------|-------|
| David B. Koff     | Liberty Global Series A | 65(10)    | *     | *     |
|                   | Liberty Global Series B | 0         |       |       |
| John C. Malone    | Liberty Global Series A | 974(11)   | *     | 23.1% |
|                   | Liberty Global Series B | 8,510(12) | 91.1% |       |
| Gene M. Musselman | Liberty Global Series A | 12(13)    | *     | *     |
|                   | Liberty Global Series B | 0         |       |       |
| Shane O Neill     | Liberty Global Series A | 1(3)      |       |       |
|                   | Liberty Global Series B | 0         |       |       |
| Gene W. Schneider | Liberty Global Series A | 1,592(14) | *     | *     |
|                   | Liberty Global Series B | 0         |       |       |

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| <b>Name of Beneficial Owner</b>                 | <b>Title of Class</b>   | <b>Amount and Nature of Beneficial Ownership (In thousands)</b> | <b>Percent of Class</b> | <b>Voting Power</b> |
|---|-------------------------|---|-------------------------|---------------------|
| Frederick G. Westerman III                      | Liberty Global Series A | 188(15)   | *                       | *                   |
|   | Liberty Global Series B | 0   |                         |                     |
| All directors and executive officers as a group | Liberty Global Series A | 4,301(16)   | 1.7%                    | 27.9%               |
|   | Liberty Global Series B | 9,285(17)   | 92.2%                   |                     |

\* Less than one percent.

- (1) See footnotes 1, 2, 3, 4 and 5 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (2) See footnotes 3 and 5 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (3) See footnote 6 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (4) See footnote 7 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (5) See footnote 8 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (6) See footnotes 9 and 10 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (7) See footnotes 11 and 12 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (8) See footnotes 13 and 14 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (9) See footnotes 15, 16 and 17 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (10) See footnotes 18, 19 and 20 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (11) See footnotes 21, 22, 23, 25 and 26 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.

- (12) See footnotes 22, 24 and 26 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (13) See footnotes 27 and 28 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (14) See footnotes 29, 30, 31, 32 and 33 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (15) See footnote 34 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (16) See footnotes 2, 3, 5, 12, 17, 19, 22, 23, 24, 26, 30, 31, 32, 35 and 36 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.
- (17) See footnotes 3, 5, 22, 24 and 26 in Executive Officer, Directors and Principal Stockholders of UGC Security Ownership of Certain Beneficial Owners and Management.

**Table of Contents****Pro Forma Cash Consideration Deliverable to UGC Management**

The following table sets forth an estimate of the amount of cash consideration that could have been received by each UGC director and each of the UGC named executive officers (as defined in UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004) and by all of UGC's directors and executive officers as a group if the mergers had been effected on March 31, 2005, and assuming that (1) they exercised their cash election with respect to all of their UGC beneficial ownership interests (other than interests held pursuant to stock options), and (2) their cash elections were not reduced pursuant to applicable proration procedures.

| Name of Beneficial Owner                        | Approximate<br>Amount of Cash<br>Consideration |
|---|--|
| Robert R. Bennett                               | \$ 1,232,639                                   |
| Charles H.R. Bracken                            | \$ 35,341                                      |
| John P. Cole, Jr.*                              | \$ 1,710,835                                   |
| John W. Dick*                                   |  |
| Bernard G. Dvorak                               | \$ 28,740                                      |
| Michael T. Fries                                | \$ 320,930                                     |
| Paul A. Gould*                                  | \$ 1,433,810                                   |
| Gary S. Howard                                  |  |
| David B. Koff                                   |  |
| John C. Malone                                  |  |
| Gene M. Musselman                               | \$ 124,540                                     |
| Shane O Neill                                   |  |
| Gene W. Schneider                               | \$ 2,681,988                                   |
| Frederick G. Westerman III                      | \$ 86,220                                      |
| All directors and executive officers as a group | \$ 7,655,043                                   |

\* Member of the Special Committee

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**DESCRIPTION OF LIBERTY GLOBAL CAPITAL STOCK**

The following information reflects Liberty Global's restated certificate of incorporation and bylaws as these documents will be in effect at the time of the mergers.

**Authorized Capital Stock**

Liberty Global's authorized capital stock consists of one billion one hundred million (1,100,000,000) shares, of which one billion fifty million (1,050,000,000) shares are designated common stock, par value \$0.01 per share, and fifty million (50,000,000) shares are designated preferred stock, par value \$0.01 per share. Liberty Global's common stock is divided into three series. Liberty Global has authorized five hundred million (500,000,000) shares of Series A common stock, fifty million (50,000,000) shares of Series B common stock, and five hundred million (500,000,000) shares of Series C common stock.

Immediately following the effective time of the mergers, Liberty Global expects to have up to 244,904,000 shares of its Series A common stock and 7,264,300 shares of its Series B common stock outstanding, based upon the number of shares of LMI Series A common stock, LMI Series B common stock, UGC Class A common stock and UGC Class C common stock outstanding on March 31, 2005. The actual number of outstanding shares of Liberty Global Series A common stock will also depend on the number of UGC stockholders who make the cash election. No shares of Liberty Global Series C common stock or preferred stock will be outstanding immediately following the effective time of the merger.

**Common Stock**

The holders of Liberty Global Series A common stock, Series B common stock and Series C common stock have equal rights, powers and privileges, except as otherwise described below.

***Voting Rights***

The holders of Liberty Global Series A common stock will be entitled to one vote for each share held, and the holders of Liberty Global Series B common stock will be entitled to ten votes for each share held, on all matters voted on by Liberty Global stockholders, including elections of directors. The holders of Liberty Global Series C common stock will not be entitled to any voting powers, except as required by Delaware law. When the vote or consent of holders of Liberty Global Series C common stock is required by Delaware law, the holders of Liberty Global Series C common stock will be entitled to 1/100th of a vote for each share held. Liberty Global's charter does not provide for cumulative voting in the election of directors.

***Dividends; Liquidation***

Subject to any preferential rights of any outstanding series of Liberty Global's preferred stock created by Liberty Global's board from time to time, the holders of Liberty Global's common stock will be entitled to such dividends as may be declared from time to time by Liberty Global's board from funds available therefor. Except as otherwise described under Distributions, whenever a dividend is paid to the holders of one of Liberty Global Series of common stock, Liberty Global shall also pay to the holders of the other series of Liberty Global's common stock an equal per share dividend. For a more complete discussion of Liberty Global's dividend policy, please see Dividend Policy.

***Conversion***

Each share of Liberty Global Series B common stock is convertible, at the option of the holder, into one share of Liberty Global Series A common stock. Liberty Global Series A common stock and Liberty Global Series C common stock are not convertible.

***Distributions***

Distributions made in shares of Liberty Global Series A common stock, Liberty Global Series B common stock, Liberty Global Series C common stock or any other security with respect to Liberty Global Series A common stock, Liberty Global Series B common stock or Liberty Global Series C common stock may be declared and paid only as follows:

a share distribution (1) consisting of shares of Liberty Global Series A common stock (or securities convertible therefor) to holders of Liberty Global Series A common stock, Liberty Global Series B common stock and



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Liberty Global Series C common stock, on an equal per share basis; or (2) consisting of shares of Liberty Global Series B common stock (or securities convertible therefor) to holders of Liberty Global Series A common stock, Liberty Global Series B common stock and Liberty Global Series C common stock, on an equal per share basis; or (3) consisting of shares of Liberty Global Series C common stock (or securities convertible therefor) to holders of Liberty Global Series A common stock, Liberty Global Series B common stock and Liberty Global Series C common stock, on an equal per share basis; or (4) consisting of shares of Liberty Global Series A common stock (or securities convertible therefor) to holders of Liberty Global Series A common stock and, on an equal per share basis, shares of Liberty Global Series B common stock (or securities convertible therefor) to holders of Liberty Global Series B common stock and, on an equal per share basis, shares of Liberty Global Series C common stock (or securities convertible therefor) to holders of Liberty Global Series C common stock; and

a share distribution consisting of shares of any class or series of securities of Liberty Global or any other person, other than Liberty Global Series A common stock, Liberty Global Series B common stock or Liberty Global Series C common stock (or securities convertible therefor) on the basis of a distribution of (1) identical securities, on an equal per share basis, to holders of Liberty Global Series A common stock, Liberty Global Series B common stock and Liberty Global Series C common stock; or (2) separate classes or series of securities, on an equal per share basis, to holders of Liberty Global Series A common stock, Liberty Global Series B common stock and Liberty Global Series C common stock; or (3) a separate class or series of securities to the holders of one or more series of Liberty Global's common stock and, on an equal per share basis, a different class or series of securities to the holders of all other series of Liberty Global's common stock, *provided* that, in the case of (2) or (3) above, the securities so distributed do not differ in any respect other than their relative voting rights and related differences in designation, conversion and share distribution provisions, with the holders of shares of Liberty Global Series B common stock receiving securities of the class or series having the highest relative voting rights and the holders of shares of each other series of Liberty Global's common stock receiving securities of the class or series having lesser relative voting rights, and *provided further* that, if different classes or series of securities are being distributed to holders of Liberty Global Series A common stock and Liberty Global Series C common stock, then such securities shall be distributed either as determined by Liberty Global's board of directors or such that the relative voting rights of the securities of the class or series of securities to be received by the holders of Liberty Global Series A common stock and Liberty Global Series C common stock corresponds, to the extent practicable, to the relative voting rights of each such series of Liberty Global's common stock, and *provided further* that, in each case, the distribution is otherwise made on a equal per share basis.

Liberty Global may not reclassify, subdivide or combine any series of Liberty Global's common stock without reclassifying, subdividing or combining the other series of Liberty Global's common stock, on an equal per share basis.

***Liquidation and Dissolution***

In the event of Liberty Global's liquidation, dissolution and winding up, after payment or provision for payment of Liberty Global's debts and liabilities and subject to the prior payment in full of any preferential amounts to which Liberty Global's preferred stock holders may be entitled, the holders of Liberty Global Series A common stock, Liberty Global Series B common stock and Liberty Global Series C common stock will share equally, on a share for share basis, in Liberty Global's assets remaining for distribution to the holders of Liberty Global's common stock.

**Preferred Stock**

Liberty Global's restated certificate of incorporation authorizes Liberty Global's board of directors to establish one or more series of Liberty Global's preferred stock and to determine, with respect to any series of Liberty Global's preferred stock, the terms and rights of the series, including:

the designation of the series;

the number of authorized shares of the series, which number Liberty Global's board may thereafter increase or decrease but not below the number of such shares then outstanding;

the dividend rate or amounts, if any, payable on the shares and, in the case of cumulative dividends, the date or dates from which dividends on all shares of the series shall be cumulative and the relative preferences or rights of priority or participation with respect to such dividends;

the rights of the series in the event of Liberty Global's voluntary or involuntary liquidation, dissolution or winding up and the relative preferences or rights of priority of payment;

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the rights, if any, of holders of the series to convert into or exchange for other classes or series of stock or indebtedness and the terms and conditions of any such conversion or exchange, including provision for adjustments within the discretion of Liberty Global's board;

the voting rights, if any, of the holders of the series;

the terms and conditions, if any, for us to purchase or redeem the shares; and

any other relative rights, preferences and limitations of the series.

Liberty Global believes that the ability of Liberty Global's board of directors to issue one or more series of Liberty Global's preferred stock will provide them with flexibility in structuring possible future financing and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of Liberty Global's preferred stock, as well as shares of Liberty Global's common stock, will be available for issuance without further action by Liberty Global stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which Liberty Global's securities may be listed or traded. If the approval of Liberty Global stockholders is not required for the issuance of shares of Liberty Global's preferred stock or Liberty Global's common stock, Liberty Global's board may determine not to seek stockholder approval.

Although Liberty Global has no intention at the present time of doing so, it could issue a series of Liberty Global's preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Liberty Global's board of directors will make any determination to issue such shares based upon its judgment as to the best interests of Liberty Global's stockholders. Liberty Global's board of directors, in so acting, could issue Liberty Global's preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of Liberty Global's board of directors, including a tender offer or other transaction that some, or a majority, of Liberty Global stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then-current market price of the stock.

**Dividend Policy**

Liberty Global presently intends to retain future earnings, if any, to finance the expansion of Liberty Global's business. Therefore, Liberty Global does not expect to pay any cash dividends in the foreseeable future. All decisions regarding the payment of dividends by Liberty Global will be made by Liberty Global's board of directors, from time to time, in accordance with applicable law after taking into account various factors, including Liberty Global's financial condition, operating results, current and anticipated cash needs, plans for expansion and possible loan covenants which may restrict or prohibit Liberty Global's payment of dividends.

**Anti-Takeover Effects of Provisions of Restated Certificate of Incorporation and Bylaws**

***Board of Directors***

Liberty Global's restated certificate of incorporation and bylaws provide that, subject to any rights of the holders of any series of Liberty Global's preferred stock to elect additional directors, the number of Liberty Global's directors shall not be less than three and the exact number shall be fixed from time to time by a resolution adopted by the affirmative vote of 75% of the members of Liberty Global's board then in office. The members of Liberty Global's board, other than those who may be elected by holders of Liberty Global's preferred stock, are divided into three classes. Each class consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of board members. The term of office of Liberty Global's Class I directors expires at the annual meeting of Liberty Global stockholders in 2006. The term of office of Liberty Global's Class II directors expires at the annual meeting of Liberty Global stockholders in 2007. The term of office of Liberty Global's Class III directors expires at the annual meeting of Liberty Global stockholders in 2008. At each annual meeting of Liberty Global stockholders, the successors of that class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of Liberty Global stockholders held in the third year following the year of their election. The directors of each class will hold office until their respective successors are elected and qualified.

Liberty Global's restated certificate of incorporation provides that, subject to the rights of the holders of any series of Liberty Global's preferred stock, Liberty Global's directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the aggregate voting power of Liberty Global's outstanding capital stock entitled to vote at an election of directors, voting together as a single class.

Liberty Global's restated certificate of incorporation provides that, subject to the rights of the holders of any series of Liberty Global's preferred stock, vacancies on Liberty Global's board resulting from death, resignation, removal,

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disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on Liberty Global's board, shall be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director so elected shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is assigned, and until that director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting Liberty Global's board shall shorten the term of any incumbent director, except as may be provided in any certificate of designation with respect to a series of Liberty Global's preferred stock with respect to any additional director elected by the holders of that series of Liberty Global's preferred stock.

These provisions would preclude a third party from removing incumbent directors and simultaneously gaining control of Liberty Global's board by filling the vacancies created by removal with its own nominees. Under the classified board provisions described above, it would take at least two elections of directors for any individual or group to gain control of Liberty Global's board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of Liberty Global.

### ***No Shareowner Action by Written Consent; Special Meetings***

Liberty Global's restated certificate of incorporation provides that, except as otherwise provided in the terms of any series of preferred stock, any action required to be taken or which may be taken at any annual meeting or special meeting of stockholders may not be taken without a meeting and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of Liberty Global's preferred stock, special meetings of Liberty Global stockholders for any purpose or purposes may be called only by Liberty Global's Secretary at the request of at least 75% of the members of Liberty Global's board then in office. No business other than that stated in the notice of special meeting shall be transacted at any special meeting.

### ***Advance Notice Procedures***

Liberty Global's bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of Liberty Global stockholders.

All nominations by stockholders or other business to be properly brought before a meeting of stockholders shall be made pursuant to timely notice in proper written form to Liberty Global's Secretary. To be timely, a stockholder's notice shall be given to Liberty Global's Secretary at Liberty Global's offices as follows:

(1) with respect to an annual meeting of Liberty Global stockholders that is called for a date not more than 30 days before or 70 days after the anniversary date of the immediately preceding annual meeting of Liberty Global stockholders, such notice shall be given no earlier than the close of business on the 120th day prior to such anniversary and no later than the close of business on the 90th day prior to such anniversary;

(2) with respect to an annual meeting of Liberty Global stockholders that is called for a date which is more than 30 days before or 70 days after the anniversary date of the immediately preceding annual meeting of Liberty Global stockholders, such notice shall be given no earlier than the close of business on the 120th day prior to the current annual meeting and not later than the close of business on the later of (A) the 90th day prior to the current annual meeting or (b) the 10th day following the day on which Liberty Global first publicly announces the date of the current annual meeting; and

(3) with respect to an election to be held at a special meeting of Liberty Global stockholders, not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting.

The public announcement of an adjournment or postponement of a meeting of Liberty Global stockholders does not commence a new time period (or extend any time period) for the giving of any such stockholder notice. However, if the number of directors to be elected to Liberty Global's board at any meeting is increased, and Liberty Global does not make a public announcement naming all of the nominees for director or specifying the size of the increased board

at least 100 days prior to the anniversary date of the immediately preceding annual meeting, a stockholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to Liberty Global's Secretary at Liberty Global's offices not later than the close of business on the 10th day following the day on which Liberty Global first made the relevant public announcement. For purposes of the first annual meeting of stockholders to be held in 2006, the first anniversary date shall be deemed to be [ ], 2006.

**Table of Contents*****Amendments***

Liberty Global's restated certificate of incorporation provides that, subject to the rights of the holders of any series of Liberty Global's preferred stock, the affirmative vote of the holders of at least 80% of the aggregate voting power of Liberty Global's outstanding capital stock generally entitled to vote upon all matters submitted to Liberty Global stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of Liberty Global's restated certificate of incorporation or the addition or insertion of other provisions in the certificate, provided that the foregoing voting requirement shall not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of Liberty Global stockholders or (2) which has been approved by at least 75% of the members of Liberty Global's board then in office. Liberty Global's restated certificate of incorporation further provides that the affirmative vote of the holders of at least 80% of the aggregate voting power of Liberty Global's outstanding capital stock generally entitled to vote upon all matters submitted to Liberty Global stockholders, voting together as a single class, is required to adopt, amend or repeal any provision of Liberty Global's bylaws, provided that the foregoing voting requirement shall not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of Liberty Global's board then in office.

***Supermajority Voting Provisions***

In addition to the supermajority voting provisions discussed under *Amendments* above, Liberty Global's restated certificate of incorporation provides that, subject to the rights of the holders of any series of Liberty Global's preferred stock, the affirmative vote of the holders of at least 80% of the aggregate voting power of Liberty Global's outstanding capital stock generally entitled to vote upon all matters submitted to Liberty Global stockholders, voting together as a single class, is required for:

Liberty Global's merger or consolidation with or into any other corporation, provided, that the foregoing voting provision shall not apply to any such merger or consolidation (1) as to which the laws of the State of Delaware, as then in effect, do not require the consent of Liberty Global stockholders, or (2) that at least 75% of the members of Liberty Global's board of directors then in office have approved;

the sale, lease or exchange of all, or substantially all, of Liberty Global's assets, provided, that the foregoing voting provisions shall not apply to any such sale, lease or exchange that at least 75% of the members of Liberty Global's board of directors then in office have approved; or

Liberty Global's dissolution, provided, that the foregoing voting provision shall not apply to such dissolution if at least 75% of the members of Liberty Global's board of directors then in office have approved such dissolution.

**Section 203 of the Delaware General Corporation Law**

Section 203 of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an interested stockholder. An interested stockholder for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the aggregate voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the aggregate voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the aggregate voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. In Liberty Global's restated certificate of incorporation, Liberty Global has elected not to be governed by Section 203.

**Transfer Agent and Registrar**

EquiServe Trust Company N.A. will be the transfer agent and registrar for Liberty Global's common stock.

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**COMPARISON OF THE RIGHTS OF STOCKHOLDERS OF LMI, UGC AND LIBERTY GLOBAL**

Liberty Global, LMI and UGC are each organized under the laws of the State of Delaware. Any differences, therefore, in the rights of holders of capital stock in Liberty Global, LMI and UGC arise primarily from differences in their respective charters and bylaws, in the case of LMI and UGC, as in effect on the date of this joint proxy statement/prospectus, and, in the case of Liberty Global, as will be in effect at the effective time of the mergers. Upon completion of the mergers, holders of LMI common stock and holders of UGC common stock will become holders of Liberty Global common stock and their rights will be governed by Delaware law and Liberty Global's restated certificate of incorporation and bylaws.

The following discussion summarizes the material differences between the rights of LMI stockholders, UGC stockholders and Liberty Global stockholders, as described in the applicable provisions of their respective charters and bylaws. This section does not include a complete description of all the differences among the rights of these stockholders, nor does it include a complete description of the specific rights of these stockholders. All LMI stockholders and UGC stockholders are urged to carefully read the relevant provisions of Delaware law as well as the form of restated certificate of incorporation and form of bylaws of Liberty Global included with this joint proxy statement/prospectus as Appendix F and Appendix G, respectively.

**Authorized Capital Stock**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>The authorized capital stock of LMI consists of (i) 1,050,000,000 shares of common stock, par value \$.01 per share, of which 500,000,000 shares are designated LMI Series A common stock 50,000,000 shares are designated LMI Series B common stock and 500,000,000 shares are designated LMI Series C common stock and (ii) 50,000,000 shares of LMI preferred stock, par value \$.01 per share. LMI's restated certificate of incorporation authorizes the board of directors to authorize the issuance of one or more series of preferred stock.</p> | <p>The authorized capital stock of UGC consists of (i) 2,400,000,000 shares of UGC common stock, par value \$.01 per share, of which 1,000,000,000 shares are designated UGC Class A common stock, 1,000,000,000 shares are designated UGC Class B common stock and 400,000,000 shares are designated UGC Class C common stock and (ii) 10,000,000 shares of UGC preferred stock, par value \$.01 per share. UGC's amended and restated certificate of incorporation authorizes the board of directors to authorize the issuance of one or more series of preferred stock.</p> | <p>Same as LMI.</p>   |

**Voting Rights**

| <b>LMI</b>   | <b>UGC</b>   | <b>Liberty Global</b> |
|--|--|-----------------------|
| <p>Under LMI's restated certificate of incorporation, holders of LMI Series A common stock are entitled to one vote for each share of such stock held, and holders of LMI Series B common stock are entitled to ten votes for each share of such</p> | <p>Under UGC's amended and restated certificate of incorporation, holders of UGC Class A common stock are entitled to one vote for each share of such stock held, holders of UGC Class B common stock are entitled to ten votes for each share of such</p> | <p>Same as LMI.</p>   |



stock held, on all matters submitted to a vote of LMI stockholders at any annual or special meeting. Holders of LMI Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders

stock held and holders of Class C common stock are entitled to ten votes for each share of such stock held.

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**LMI**

**UGC**

**Liberty Global**

of LMI Series C common stock are entitled to 1/100th of a vote per share).

**Cumulative Voting**

**LMI**

**UGC**

**Liberty Global**

Under Delaware law, stockholders of a Delaware corporation do not have the right to cumulate their votes in the election of directors, unless that right is granted in the certificate of incorporation of the corporation. LMI's restated certificate of incorporation does not permit cumulative voting by LMI stockholders.

Same as LMI.

Same as LMI.

**Size of Board of Directors**

**LMI**

**UGC**

**Liberty Global**

LMI's board of directors has eight members. LMI's restated certificate of incorporation provides that the minimum number of directors is three, and that the actual number of directors may be fixed by the board of directors.

UGC's board of directors has ten members. UGC's amended and restated certificate of incorporation provides that the number of directors shall not be fewer than nine nor more than twelve, and that the actual number of directors may be fixed by the board of directors.

Liberty Global's board of directors initially will have ten members. Liberty Global's restated certificate of incorporation and bylaws will provide that the minimum number of directors is three, and that the actual number of directors may be fixed by the board of directors.

**Classes of Directors**

**LMI**

**UGC**

**Liberty Global**

LMI's restated certificate of incorporation provides that its board of directors is divided into three classes of directors with each class being elected to a staggered three-year term.

Same as LMI.

Same as LMI.

**Removal of Directors**

**LMI**

**UGC**

**Liberty Global**

Under LMI's restated certificate of incorporation, a director may be removed from office only for cause upon the affirmative vote of the holders of a majority of the aggregate voting power of the outstanding shares of LMI Series A common stock, LMI Series B common stock and any series of preferred stock entitled to vote upon matters that may be submitted to an LMI stockholder vote.

Under UGC's amended and restated certificate of incorporation, any and all directors may be removed from the board of directors with or without cause upon the affirmative vote of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate combined voting power of the UGC Class A common stock, UGC Class B common stock and UGC Class C common stock, voting together as a single class.

Same as LMI.

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**Vacancies on the Board of Directors**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>LMI's restated certificate of incorporation provides that vacancies resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on the board of directors, shall be filled only by the affirmative vote of a majority of the remaining directors then in office.</p> | <p>UGC's amended and restated certificate of incorporation provides that any newly created directorship resulting from an increase in the number of directors or any other vacancy, however caused, shall be filled by a majority of the directors then in office.</p> | <p>Same as LMI.</p>   |

**Limitation of Personal Liability of Directors**

| <b>LMI</b>   | <b>UGC</b>          | <b>Liberty Global</b> |
|--|---------------------|-----------------------|
| <p>Under Delaware law, a corporation may include in its certificate of incorporation a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; however, the provision may not eliminate or limit the liability of a director for a breach of the duty of loyalty, acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, unlawful payments of dividends, certain stock repurchases or redemptions or any transaction from which the director derived an improper personal benefit. LMI's restated certificate of incorporation limits the personal liability of LMI directors for monetary damages for breach of fiduciary duty as a director to the fullest extent permitted by Delaware law.</p> | <p>Same as LMI.</p> | <p>Same as LMI.</p>   |

**Indemnification of Directors and Officers**

| <b>LMI</b> | <b>UGC</b> | <b>Liberty Global</b> |
|------------|------------|-----------------------|
|------------|------------|-----------------------|

Delaware law provides that, subject to certain limitations in the case of derivative suits brought by a corporation's stockholders in its name, a corporation may indemnify any person who is made a party to any third-party action, suit or proceeding (other than an action by or in the right of the corporation) on account of being a current or former director, officer, employee or agent of the corporation (or is or was

Same as LMI.

Same as LMI.

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**LMI**

**UGC**

**Liberty Global**

serving at the request of the corporation in such capacity for another corporation, partnership, joint venture, trust or other enterprise) against expenses, including attorney's fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding through, among other things, a majority of directors who were not parties to the suit or proceeding, if the person (i) acted in good faith and in a manner reasonably believed to be in the best interests of the corporation (or in some circumstances, at least not opposed to its best interests), and (ii) in a criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. Delaware corporate law also permits indemnification by a corporation under similar circumstances for expenses (including attorneys' fees) actually and reasonably incurred by such persons in connection with the defense or settlement of a derivative action or suit, except that no indemnification may be made in respect of any claim, issue or matter as to which the person is adjudged to be liable to the corporation unless the Delaware Court of Chancery or the court in which the action or suit was brought determines upon application that the person is fairly and reasonably entitled to indemnity for the expenses which the court deems to be proper. To the extent that a current or former director, officer, employee or agent is successful in the defense of such an action, suit or proceeding, the corporation is required by Delaware

corporate law to indemnify such person for reasonable expenses incurred thereby. Expenses (including attorneys' fees) incurred by such persons in defending any action, suit or proceeding may be paid in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of that

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| <b>LMI</b>   | <b>UGC</b> | <b>Liberty Global</b> |
|--|------------|-----------------------|
| <p>person to repay the amount if it is ultimately determined that person is not entitled to be so indemnified. LMI's restated certificate of incorporation provides for (i) the indemnification of its current or former directors and officers to the fullest extent permitted by law, and (ii) the prepayment of expenses (including attorneys' fees) upon receipt of an undertaking to repay such amounts if it is ultimately determined that the director or officer is not entitled to indemnification.</p> |            |                       |

**Action by Written Consent**

| <b>LMI</b>   | <b>UGC</b>  | <b>Liberty Global</b> |
|--|---|-----------------------|
| <p>LMI's restated certificate of incorporation specifically denies LMI stockholders the power to consent in writing, without a meeting, to the taking of any action.</p> | <p>UGC's amended and restated Certificate of incorporation allows UGC stockholders to take action by written consent.</p> | <p>Same as LMI.</p>   |

**Amendments to Certificate of Incorporation**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>LMI's restated certificate of incorporation requires, for the amendment, alteration or repeal of any provision of or the addition or insertion of any provision in LMI's restated certificate of incorporation, the affirmative vote of the holders of at least 80% of the aggregate voting power of the outstanding shares of LMI Series A common stock, LMI Series B common stock and any series of preferred stock entitled to vote upon matters submitted to a stockholder vote, unless the amendment (i) is not required to be approved by LMI stockholders</p> | <p>UGC's amended and restated certificate of incorporation requires the affirmative vote of the holders of 66<sup>2</sup>/<sub>3</sub>% of the aggregate voting power of the outstanding UGC common stock, voting together as a single class, to amend, alter, repeal or adopt provisions of the amended and restated certificate of incorporation relating to the following matters: (1) the classification of directors, (2) the election of directors, (3) the term of office of directors, (4) the filling of vacant directorships, (5) the removal of directors, (6) the nominations of</p> | <p>Same as LMI.</p>   |



under Delaware Law or (ii) has been approved by 75% of the LMI directors then in office.

directors, (7) the calling of special meetings of stockholders, (8) requirements concerning amendments to the bylaws and (9) requirements concerning amendments to the amended and restated certificate of incorporation. The items listed under (1) through (6) also require the affirmative vote of the holders of a majority of the voting power of the outstanding UGC Class C common stock, voting separately.

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**Amendments to Bylaws**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>Delaware law provides that stockholders have the power to amend the bylaws of a corporation unless the certificate of incorporation grants such power to the board of directors, in which case either the stockholders or the board of directors may amend the bylaws. LMI's restated certificate of incorporation authorizes the board of directors, by the affirmative vote of not less than 75% of the directors then in office, to adopt, amend or repeal any provision of the bylaws.</p> | <p>Delaware law provides that stockholders shall have the power to amend the bylaws of a corporation unless the certificate of incorporation grants such power to the board of directors, in which case either the stockholders or the board of directors may amend the bylaws. UGC's amended and restated certificate of incorporation provides that the board of directors has the power to adopt, alter, amend or repeal the bylaws of UGC by a vote of the majority of the directors then in office. The holders of shares of outstanding equity securities of UGC entitled to vote in the election of directors, to the extent such power is conferred on them by application of law, also have the power to adopt, alter, amend or repeal the bylaws of UGC if approved by at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate voting power of the outstanding UGC common stock, voting together as a single class.</p> | <p>Same as LMI.</p>   |

**Special Meetings of Stockholders**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>LMI's restated certificate of incorporation and bylaws provide that the secretary may call special meetings of the stockholders, only at the request of 75% of the members of the board of directors then in office.</p> | <p>UGC's bylaws provide that special meetings may be called only (i) by the board of directors pursuant to a resolution approved by a majority of the directors then in office, (ii) by the chairman of the board of directors or (iii) at the request of holders of common stock representing a majority of the aggregate voting power of the outstanding equity securities entitled to vote in the election of director.</p> | <p>Same as LMI.</p>   |



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**Vote on Extraordinary Corporate Transactions**

| <b>LMI</b>  | <b>UGC</b>   | <b>Liberty Global</b> |
|---|--|-----------------------|
| <p>Under Delaware law, a sale or other disposition of all or substantially all of a corporation's assets, a merger or consolidation of a corporation with another corporation or a dissolution of a corporation requires the affirmative vote of the corporation's board of directors (except in limited circumstances) plus, with limited exceptions, the affirmative vote of a majority of the outstanding stock entitled to vote on the transaction. LMI's restated certificate of incorporation requires the affirmative vote of holders of at least 80% of the aggregate voting power of the outstanding shares of LMI Series A common stock, LMI Series B common stock and any series of preferred stock entitled to vote upon matters submitted to an LMI stockholder vote to authorize: (i) a merger or consolidation with and into any other corporation, unless (a) the laws of the state of Delaware do not require stockholder consent or (b) 75% of the members of the board of directors have approved the merger or consolidation, (ii) the sale, lease or exchange of all, or substantially all, assets of LMI, unless 75% of the members of the board of directors then in office have approved the transaction or (iii) the dissolution of LMI, unless 75% of the members of the board of directors then in office have approved the dissolution.</p> | <p>Under Delaware law, a sale or other disposition of all or substantially all of a corporation's assets, a merger or consolidation of a corporation with another corporation or a dissolution of a corporation requires the affirmative vote of the corporation's board of directors (except in limited circumstances) plus, with limited exceptions, the affirmative vote of a majority of the outstanding stock entitled to vote on the transaction. UGC's amended and restated certificate of incorporation and bylaws include no additional provisions in this regard, and the Delaware law applies without modification.</p> | <p>Same as LMI.</p>   |

**State Anti-Takeover Statutes**

| <b>LMI</b>  | <b>UGC</b>          | <b>Liberty Global</b> |
|---|---------------------|-----------------------|
| <p>Subject to certain exceptions, Section 203 of the Delaware</p> | <p>Same as LMI.</p> | <p>Same as LMI.</p>   |

corporate statute generally prohibits public corporations from engaging in significant business transactions, including mergers, with a holder of 15% or more of the corporation's stock, referred to as an interested stockholder, for a period of three years after the interested stockholder becomes an interested stockholder, unless the certificate of incorporation contains a provision expressly

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**LMI**

**UGC**

**Liberty Global**

electing not to be governed by such a section. LMI's restated certificate of incorporation expressly elects not to be governed by Section 203.

**Notice of Stockholder Proposals and Director Nominations**

**LMI**

**UGC**

**Liberty Global**

Under LMI's bylaws, for director nominations or other business to be properly brought before an LMI annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of LMI and any such proposed business other than the nominations of persons for election to the board of directors, must constitute a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of LMI not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such

Under UGC's bylaws, for director nominations or other business to be properly brought before a UGC annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of UGC and any such proposed business other than the nominations of persons for election to the board of directors, must constitute a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of UGC not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on

Same as LMI.

meeting is first made by LMI).

which public announcement of the  
date of such meeting is first made  
by UGC).

**Table of Contents****LIBERTY GLOBAL UNAUDITED CONDENSED PRO FORMA COMBINED FINANCIAL STATEMENTS****General**

The accompanying unaudited condensed pro forma combined financial statements reflect the pro forma effects of (1) the proposed mergers (the Proposed Mergers) contemplated by the merger agreement, whereby Liberty Global will acquire all of the capital stock of UGC that LMI does not already own and LMI and UGC will become wholly owned subsidiaries of Liberty Global; and (2) the July 1, 2004 acquisition of Suez-Lyonnaise Télécom SA (Noos), the April 1, 2005 acquisition of the remaining 19.9% minority interest in UPC Broadband France SAS (UPC Broadband France), the January 1, 2005 consolidation of LMI/Sumisho Super Media LLC (Super Media) and Jupiter Telecommunications Co., Ltd. (J-COM), and the April 29, 2005 sale of LMI's equity interests in Torneos y Competencias S.A. (TyC) and Fox Pan American Sports, LLC (FPAS) (collectively, the Consummated Transactions). The following unaudited condensed pro forma combined balance sheet of Liberty Global, dated as of December 31, 2004, assumes that the Proposed Mergers, the consolidation of Super Media and J-COM, the acquisition of the remaining 19.9% minority interest in UPC Broadband France, and the sale of LMI's equity interests in TyC and FPAS were effective as of such date. The following unaudited condensed pro forma combined statement of operations of Liberty Global for the year ended December 31, 2004 includes the pro forma effects of the Proposed Mergers and the Consummated Transactions, as if each of such transactions were effective as of January 1, 2004.

The unaudited pro forma results do not purport to be indicative of the financial position and results of operations that Liberty Global will obtain in the future, or that Liberty Global would have obtained if the Proposed Mergers and Consummated Transactions were effective as of the dates indicated above. These unaudited condensed pro forma combined financial statements of Liberty Global have been derived from and should be read in conjunction with the historical financial statements and related notes thereto of LMI Noos and J-COM. Such historical financial statements are included in Appendix A: Information Concerning Liberty Media International, Inc. Part 4: Historical Financial Statements of LMI and its Significant Affiliates and Acquirees.

**Proposed Mergers**

At December 31, 2004, LMI owned 53.6% of the outstanding equity securities of UGC representing approximately 91.0% of UGC's outstanding voting power. Pursuant to the Proposed Mergers, each share of LMI Series A common stock or Series B common stock owned by an LMI stockholder will be exchanged for one share of the corresponding series of Liberty Global common stock. Stockholders of UGC (other than LMI and its wholly owned subsidiaries) may elect to receive, for each share of UGC common stock owned by them, either:

0.2155 of a share of Liberty Global Series A common stock (plus cash in lieu of any fractional share interest) (the stock election); or

\$9.58 in cash, without interest (the cash election).

UGC stockholders who make the cash election will be subject to proration so that, in the aggregate, the cash consideration paid to UGC stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC public stockholders. If proration is made, any share for which a holder is not entitled to receive cash will be converted into 0.2155 of a share of Liberty Global Series A common stock (plus cash in lieu of any fractional share interest).

The Proposed Mergers will be accounted for as a step acquisition by LMI of the remaining minority interest in UGC. The purchase price in this step acquisition will include the consideration issued to UGC public stockholders to acquire the UGC interest not already owned by LMI and the direct acquisition costs incurred by LMI. As UGC was a consolidated subsidiary of LMI at December 31, 2004, the purchase price will first be applied to eliminate the minority interest in UGC from the consolidated balance sheet of LMI, and the remaining purchase price will be allocated on a pro rata basis to the identifiable assets and liabilities of UGC based upon their respective fair values at the effective date of the Proposed Mergers and the minority interest in UGC (46.4% at December 31, 2004) to be acquired by Liberty Global pursuant to the Proposed Mergers. Any excess purchase price that remains after amounts have been allocated to the net identifiable assets of UGC will be recorded as goodwill. As the acquiring company for accounting purposes, LMI will be the predecessor to Liberty Global and the historical financial statements of LMI will



become the historical financial statements of Liberty Global. As discussed further in the accompanying notes, the preliminary calculation of the purchase price reflected in the accompanying unaudited condensed pro forma combined financial statements is based upon the assumption that all UGC stockholders (other than LMI and its wholly owned subsidiaries) will elect to receive shares of Liberty Global in the Proposed Mergers. In addition, the preliminary

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purchase price allocation reflected in the accompanying unaudited condensed pro forma combined financial statements is subject to adjustment based upon the final assessment of the fair values of UGC's identifiable assets and liabilities.

**Consummated Transactions***Acquisitions of Noos and the Remaining 19.9% Minority Interest in UPC Broadband France*

*Noos Acquisition.* On July 1, 2004, UPC Broadband France SAS (UPC Broadband France), an indirect wholly owned subsidiary of UGC and the owner of UGC's French cable television operations, acquired Noos from Suez SA (Suez). Noos is a provider of digital and analog cable television services and high-speed internet access services in France. The final purchase price for a 100% interest in Noos was approximately \$567,102,000 (\$689,989,000 at July 1, 2004), consisting of \$487,085,000 (\$592,633,000 at July 1, 2004) in cash, a 19.9% equity interest in UPC Broadband France valued at approximately \$71,339,000 (\$86,798,000 at July 1, 2004) and \$8,678,000 (\$10,558,000 at July 1, 2004) in direct acquisition costs.

UGC accounted for this transaction as the acquisition of an 80.1% interest in Noos and the sale of a 19.9% interest in UPC Broadband France. Under the purchase method of accounting, the final purchase price was allocated to the acquired identifiable tangible and intangible assets and liabilities based upon their respective fair values.

*Acquisition of Remaining Minority Interest in UPC Broadband France.* On April 1, 2005, UGC purchased the remaining 19.9% minority interest in UPC Broadband France for \$90,105,000 (\$122,876,000 at April 1, 2005) in cash. This acquisition will be accounted for as a step acquisition by UGC of the remaining 19.9% minority interest in UPC Broadband France. As UPC Broadband France was a consolidated subsidiary of UGC at December 31, 2004, the purchase price will first be applied to eliminate the minority interest in UPC Broadband France from the consolidated balance sheet of UGC, and the remaining purchase price will be allocated on a pro rata basis to the identifiable assets and liabilities of UPC Broadband France based upon their respective fair values at April 1, 2005 and the 19.9% minority interest in UPC Broadband France acquired by UGC on that date. Any excess purchase price that remains after amounts have been allocated to the net identifiable assets of UPC Broadband France will be recorded as goodwill. The preliminary purchase price allocation reflected in the accompanying unaudited condensed pro forma combined financial statements is subject to adjustment based upon the final assessment of the fair values of UPC Broadband France's identifiable assets and liabilities.

*Consolidation of Super Media/J-COM.*

J-COM owns and operates broadband businesses in Japan. On December 28, 2004, LMI's 45.45% ownership interest in J-COM, and a 19.78% interest in J-COM owned by Sumitomo Corporation (Sumitomo) were combined in Super Media. Super Media's investment in J-COM was originally recorded at the respective historical cost bases of LMI and Sumitomo on the date that their J-COM interests were combined in Super Media. As a result of these transactions, LMI 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. At December 31, 2004, Sumitomo also held a 12.25% direct interest in J-COM and Microsoft Corporation (Microsoft) held a 19.46% beneficial interest in J-COM.

Due to certain veto rights held by Sumitomo, LMI accounted for its 69.68% ownership interest in Super Media using the equity method of accounting at December 31, 2004. 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, LMI's casting or tie-breaking vote with respect to decisions of the management committee became effective upon this announcement. Super Media is managed by a management committee consisting of two members, one appointed by LMI and one appointed by Sumitomo. From and after February 18, 2005, the management committee member appointed by LMI has a casting or deciding vote with respect to any management committee decision that LMI and Sumitomo are unable to agree on, with the exception of the terms of the initial public offering of J-COM. Certain decisions with respect to Super Media will continue to require the consent of both members rather than the management committee. These include any decision to 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.

As a result of the above-described change in the governance of Super Media, LMI began accounting for Super Media and J-COM as consolidated subsidiaries effective January 1, 2005.

On March 23, 2005, Sumitomo contributed additional J-COM shares to Super Media, increasing Sumitomo's interest in Super Media to 32.4%, and decreasing LMI's interest in Super Media to 67.6%. Sumitomo is obligated to contribute to Super Media all of its remaining equity interest in J-COM during 2005. Sumitomo and LMI are generally required to contribute to Super Media any additional shares of J-COM that either party acquires and to permit the other party

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to participate in any additional acquisition of J-COM shares during the term of Super Media. Also on March 23, 2005, J-COM completed an initial public offering of its common shares. After giving effect to Sumitomo's additional contribution of J-COM shares to Super Media and the consummation of J-COM's initial public offering, including the subsequent exercise of the underwriters' overallotment option, Super Media's ownership interest in J-COM is 54.46%. The accompanying unaudited condensed pro forma combined financial statements do not give effect to the proceeds received by J-COM in connection with the initial public offering or to the aforementioned changes in (i) LMI's ownership interest in Super Media, or (ii) Super Media's ownership interest in J-COM.

*Sale of Equity Interests in TyC and FPAS*

On April 29, 2005, LMI sold its entire equity interest in Fox Pan American Sports, LLC (FPAS), and a \$4 million convertible subordinated note issued by FPAS, to another unaffiliated member of FPAS for a cash purchase price of \$5,000,000. In addition, LMI's majority owned subsidiary, Liberty Programming Argentina, LLC (LPA LLC), sold its entire equity interest in TyC to an unrelated entity for total consideration of \$20,940,000, consisting of \$13,000,000 in cash and a \$7,940,000 secured promissory note issued by FPAS and assigned to LMI by the purchaser. The minority owner of LPA LLC is entitled to approximately \$4,399,000 of the total consideration received in connection with the sale of TyC. TyC is an independent producer of Argentine sports and entertainment programming. FPAS develops and operates multiple Spanish language subscription television and radio services and is a principal customer of TyC. Prior to the consummation of these transactions, LMI used the equity method to account for TyC and FPAS.

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**Liberty Global, Inc.**  
**Unaudited Condensed Pro Forma Combined Balance Sheet**  
**December 31, 2004**

|  | Historical           |                  | Pro forma<br>(Consummated Transactions) |                            |                | Pro forma<br>(Proposed Mergers) |                                       | Liberty<br>Global<br>as adjusted |
|--|----------------------|------------------|---|----------------------------|----------------|---------------------------------|---------------------------------------|----------------------------------|
|  | LMI                  | J-COM            | Super<br>Media/<br>J-COM                | UPC<br>Broadband<br>France | TyC/<br>FPAS   | As<br>adjusted                  | Adjustments<br>increase<br>(decrease) |                                  |
|  | as restated*         |                  | Adjustments<br>increase (decrease)      |                            |                |                                 |                                       |                                  |
| amounts in thousands                                       |                      |                  |   |                            |                |                                 |                                       |                                  |
| <b>Assets:</b>   |                      |                  |   |                            |                |                                 |                                       |                                  |
| Cash and cash equivalents                                  | \$ 2,531,486         | 101,749          |   | (122,876)(5)               | 13,601 (6)     | 2,523,960                       | (11,000)( 7)                          | 2,512,960                        |
| Receivables and other current assets                       | 661,097              | 165,535          |   |                            |                | 826,632                         |                                       | 826,632                          |
| Investments and related receivables                        | 2,704,250            | 65,178           | (2,517)(1)                              |                            | (22,667)(6)    | 1,694,293                       |                                       | 1,694,293                        |
|  |                      |                  | (1,049,951)(2)                          |                            |                |                                 |                                       |                                  |
| Property and equipment, net                                | 4,303,099            | 2,441,196        |   |                            |                | 6,744,295                       |                                       | 6,744,295                        |
| Intangible assets not subject to amortization              | 2,897,953            | 1,373,486        | 501,799 (3)                             | 29,348 (5)                 |                | 4,802,586                       | 2,357,519 (7)                         | 7,160,105                        |
| Other assets   | 604,478              | 142,392          |   |                            | 7,940 (6)      | 754,810                         |                                       | 754,810                          |
| <b>Total assets</b>  | <b>\$ 13,702,363</b> | <b>4,289,536</b> | <b>(550,669)</b>                        | <b>(93,528)</b>            | <b>(1,126)</b> | <b>17,346,576</b>               | <b>2,346,519</b>                      | <b>19,693,095</b>                |
| <b>Liabilities and Stockholders Equity:</b>                |                      |                  |   |                            |                |                                 |                                       |                                  |
| Current liabilities  | \$ 1,421,092         | 375,794          | (2,517)(1)                              |                            |                | 1,794,369                       |                                       | 1,794,369                        |
| Debt, excluding current portion                            | 4,955,919            | 2,112,722        |   |                            |                | 7,068,641                       |                                       | 7,068,641                        |
| Deferred income tax liabilities, excluding current portion | 458,138              |                  |   |                            |                | 458,138                         |                                       | 458,138                          |
| Other liabilities  | 409,998              | 440,371          |   |                            |                | 850,369                         |                                       | 850,369                          |

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|  |               |           |                |             |             |             |                |             |
|--|---------------|-----------|----------------|-------------|-------------|-------------|----------------|-------------|
| Total liabilities                                  | 7,245,147     | 2,928,887 | (2,517)        |             |             | 10,171,517  |                | 10,171,517  |
| Minority interests in subsidiaries                 | 1,216,710     | 9,513     | 802,984 (4)    | (93,528)(5) | (2,801)(6)  | 1,932,878   | (1,112,310)(7) | 820,568     |
| Stockholders Equity:                               |               |           |                |             |             |             |                |             |
| Common stock                                       | 1,758         |           |                |             |             | 1,758       | (1,758)(7)     | 2,517       |
|  |               |           |                |             |             |             | 2,517 (7)      |             |
| Additional paid-in capital                         | 7,001,635     |           |                |             |             | 7,001,635   | 3,330,180 (7)  | 10,331,815  |
| Accumulated deficit                                | (1,649,007)   |           |                |             | (53,884)(6) | (1,702,891) |                | (1,702,891) |
| Accumulated other comprehensive loss, net of taxes | 14,010        |           |                |             | 55,559 (6)  | 69,569      |                | 69,569      |
| Treasury stock                                     | (127,890)     |           |                |             |             | (127,890)   | 127,890 (7)    |             |
| J-COM equity                                       |               | 1,351,136 | (1,351,136)(2) |             |             |             |                |             |
| Total stockholders equity                          | 5,240,506     | 1,351,136 | (1,351,136)    |             | 1,675       | 5,242,181   | 3,458,829      | 8,701,010   |
| Total liabilities and stockholders equity          | \$ 13,702,363 | 4,289,536 | (550,669)      | (93,528)    | (1,126)     | 17,346,576  | 2,346,519      | 19,693,095  |

\* See note 23 to the consolidated financial statements of LMI, included elsewhere herein.

See notes to unaudited condensed pro forma combined financial statements.

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**Liberty Global, Inc.**  
**Unaudited Condensed Pro Forma Combined Statement of Operations**  
**Year ended December 31, 2004**

| Historical           |           |           |         | Pro forma<br>(Consummated Transactions) |                          |              | Pro forma<br>(Proposed Merger) |                                       |
|----------------------|-----------|-----------|---------|---|--------------------------|--------------|--------------------------------|---------------------------------------|
|                      |           |           |         | Adjustments<br>increase (decrease)      |                          |              |                                |                                       |
| LMI                  | Noos**    | J-COM     | Noos**  | UPC<br>Broadband<br>France              | Super<br>Media/<br>J-COM | TyC/<br>FPAS | As<br>adjusted                 | Adjustments<br>increase<br>(decrease) |
| as<br>restated*      |           |           |         |   |                          |              |                                |                                       |
| amounts in thousands |           |           |         |   |                          |              |                                |                                       |
| \$ 2,644,284         | 199,880   | 1,504,709 |         |   |                          |              | 4,348,873                      |                                       |
| (1,756,136)          | (147,126) | (915,112) |         |   |                          |              | (2,818,374)                    |                                       |
| (142,762)            |           | (783)     |         |   |                          |              | (143,545)                      |                                       |
| (960,888)            | (73,052)  | (378,868) | (2,978) |   |                          |              | (1,415,786)                    |                                       |
| (98,371)             |           |           |         |   |                          |              | (98,371)                       |                                       |
| (313,873)            | (20,298)  | 209,946   | (2,978) |   |                          |              | (127,203)                      |                                       |
| (307,015)            | (40,394)  | (94,958)  | 37,702  |   | 9,428                    | (13)         | (395,237)                      |                                       |
| 38,710               |           | 5,677     |         |   | (45,092)                 | (14)         | 22,783                         |                                       |
| 178,818              |           |           |         |   |                          | 23,488       | 178,818                        |                                       |

nt

ment

|        |           |          |          |             |              |              |        |           |               |
|--------|-----------|----------|----------|-------------|--------------|--------------|--------|-----------|---------------|
|        | 35,787    |          |          |             |              |              |        | 35,787    |               |
| t      | 164,730   | 727      | 337      |             |              | (9,428)(13)  |        | 156,366   |               |
|        | 111,030   | (39,667) | (88,944) | 37,702      |              | (45,092)     | 23,488 | (1,483)   |               |
|        | (202,843) | (59,965) | 121,002  | 34,724      |              | (45,092)     | 23,488 | (128,686) |               |
|        | 17,449    | (101)    | (17,315) | (10)        | (10)         | 15,640 (10)  | (10)   | 15,673    | (10)          |
|        | 167,336   |          | (4,231)  | 11,759 (11) | (3,844) (12) | (54,251)(15) |        | 116,769   | (179,433)(16) |
| \$     | (18,058)  | (60,066) | 99,456   | 46,483      | (3,844)      | (83,703)     | 23,488 | 3,756     | (179,433)     |
| \$     | (0.11)    |          |          |             |              |              |        | 0.02      |               |
| g (17) | 162,481   |          |          |             |              |              |        | 162,481   |               |

\* See note 23 to the consolidated financial statements of LMI, included elsewhere herein.

\*\* For the 6 months ended June 30, 2004.

See notes to unaudited condensed pro forma combined financial statements.



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**LIBERTY GLOBAL, INC.**  
**Notes to Unaudited Condensed Pro Forma Combined Financial Statements**  
**December 31, 2004**

- (1) Represents the elimination of intercompany balances between LMI and J-COM.
- (2) Represents the elimination of LMI's equity method investment in J-COM and the elimination of J-COM's stockholders' equity.
- (3) Represents the increase in goodwill for the aggregate amount of the excess of Super Media's investment in J-COM over its proportionate share of J-COM's equity. Super Media's investment in J-COM was originally recorded at the respective historical cost bases of LMI and Sumitomo on the date that their J-COM interests were combined in Super Media.
- (4) Represents the minority interests in Super Media and J-COM, as set forth below (amounts in thousands):

|                                  |            |
|----------------------------------|------------|
| Minority interest in J-COM       | \$ 480,457 |
| Minority interest in Super Media | 322,527    |
|                                  | \$ 802,984 |

- (5) Represents the adjustments required to reflect the acquisition of the remaining 19.9% minority interest in UPC Broadband France for a cash payment of 90,105,000 (\$122,876,000 at April 1, 2005). For purposes of these unaudited condensed pro forma combined financial statements, it has been assumed that the historical cost of UPC Broadband France's existing assets and liabilities approximate their fair value. Accordingly, the excess purchase price, after the elimination of the carrying value of the UPC Broadband France minority interest, has been allocated to goodwill. Consistent with the requirements of Statement of Financial Accounting No. 142, *Goodwill and Other Intangible Assets* (Statement 142), the unaudited condensed pro forma combined statements of operations do not reflect any amortization of this goodwill. The final allocation of the purchase price will be based upon appraisals and may result in the allocation of consideration to identifiable assets and liabilities, including assets with definitive lives. To the extent that consideration is allocated to assets with definitive lives, the final allocation of the purchase price could result in additional depreciation and or amortization expense that in turn would result in higher operating losses, net losses and net loss per share in subsequent periods. For example, if the entire excess consideration of \$29,348,000 had been allocated to property and equipment that had a weighted average life of 10 years, the accompanying unaudited condensed pro forma combined statements of operations of Liberty Global for the year ended December 31, 2004 would have reflected increases in (i) the pro forma operating loss and pro forma net loss of \$2,935,000; and (ii) the pro forma loss per share of \$0.01.
- (6) On April 29, 2005, LMI sold its entire equity interest in FPAS, and a \$4 million convertible subordinated note issued by FPAS, to another unaffiliated member of FPAS for a cash purchase price of \$5,000,000. In addition, LMI's majority owned subsidiary, LPA LLC, sold its entire equity interest in TyC to an unrelated entity for total consideration of \$20,940,000, consisting of \$13,000,000 in cash and a \$7,940,000 secured promissory note issued by FPAS and assigned to LMI by the purchaser. The minority owner of LPA LLC is entitled to approximately \$4,399,000 of the total consideration received in connection with the sale of TyC. At December 31, 2004, the carrying value of LMI's investment in (i) the equity of TyC was \$18,000,000 and (ii) the debt and equity of FPAS was \$4,667,000. In addition, cumulative foreign currency translation losses related to TyC of \$86,446,000, net of related taxes of \$30,887,000, were included in accumulated other comprehensive earnings, net of taxes at



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December 31, 2004. The adjustments required to the unaudited condensed pro forma combined balance sheet to account for the disposition of LMI's interests in TyC & FPAS are as follows:

|  | TyC         | FPAS    | Total    |
|--|-------------|---------|----------|
| <b>amounts in thousands</b>  |             |         |          |
| Record cash consideration allocable to LMI   | \$ 8,601    | 5,000   | 13,601   |
| Record promissory note from FPAS   | 7,940       |         | 7,940    |
| Eliminate investments in TyC and FPAS  | (18,000)    | (4,667) | (22,667) |
| Eliminate cumulative foreign currency translation losses related to TyC, net of taxes, from accumulated comprehensive earnings         | (55,559)    |         | (55,559) |
| Adjust minority interest in LPA LLC to zero  | 2,801       |         | 2,801    |
| Record decrease (increase) in accumulated deficit resulting from nonrecurring gain (loss) incurred in connection with the dispositions | \$ (54,217) | 333     | (53,884) |

The increase to LMI's accumulated deficit presented above, which is directly attributable to the disposition of TyC and FPAS, has not been reflected in the unaudited condensed pro forma combined statement of operations due to its nonrecurring nature.

- (7) Represents the adjustments required to reflect the Proposed Mergers, including adjustments to (i) record the issuance of 244,462,021 Liberty Global Series A shares and 7,264,300 Liberty Global Series B shares in connection with the Proposed Mergers, (ii) eliminate the minority interests in UGC's equity, (iii) record the preliminary allocation of the step acquisition purchase price, (iv) eliminate LMI's common stock and treasury stock, and (v) reflect the payment of \$11,000,000 of direct acquisition costs. The number of shares assumed to be issued in connection with the proposed mergers is based upon (A) the number of issued and outstanding shares of LMI and UGC common stock as of December 31, 2004, and (B) the assumption that all UGC stockholders (other than LMI and its wholly owned subsidiaries) will make an election to receive shares of Liberty Global Series A common stock.

As discussed in the headnote to these unaudited condensed pro forma combined financial statements, UGC stockholders (other than LMI and its wholly owned subsidiaries) may make a stock or cash election. Stockholders who make the cash election will be subject to proration so that, in the aggregate, the cash consideration paid to UGC stockholders does not exceed 20% of the aggregate value of the merger consideration payable to UGC public stockholders. The accompanying unaudited condensed pro forma combined balance sheet and statements of operations for Liberty Global assume that all UGC stockholders (other than LMI and its wholly owned subsidiaries) make the stock election. A comparison of the preliminary purchase price calculation and allocation assuming UGC stockholders (other than LMI and its wholly owned subsidiaries) receive (i) all stock consideration or (ii) 80% stock and 20% cash consideration is set forth below (dollar amounts in thousands):

|  | All Stock    | 80% stock and<br>20% cash (d) |
|--|--------------|-------------------------------|
| Liberty Global Series A shares issued to UGC public stockholders(a): | 78,947,059   | 63,157,647                    |
| Fair value of shares issued(b)                                       | \$ 3,458,829 | 2,767,063                     |
| Cash consideration   |              | 701,914                       |

|                                    |              |             |
|------------------------------------|--------------|-------------|
| Estimated direct acquisition costs | 11,000       | 11,000      |
| Total purchase price               | 3,469,829    | 3,479,977   |
| Eliminate minority interest in UGC | (1,112,310)  | (1,112,310) |
| Allocate residual to goodwill(c)   | \$ 2,357,519 | 2,367,667   |

(a) Represents the number of shares that would have been issued to UGC stockholders (other than LMI and its wholly owned subsidiaries) based upon the number of shares of UGC common stock that were issued and outstanding on December 31, 2004. The actual number of shares issued in the Proposed Mergers will depend on the number of shares of UGC common stock outstanding on the closing date and the portion of the consideration that is paid in Liberty Global shares.

(b) The fair value of the shares issued is based upon a fair value of \$43.812 per share, which is the average of the quoted market price of LMI Series A common stock for the period beginning two trading days before and ending two trading days after the date that the Proposed Mergers were announced (January 18, 2004).

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- (c) For purposes of these unaudited condensed pro forma combined financial statements, it has been assumed that the historical cost of UGC's existing assets and liabilities approximate their fair value. Accordingly, the excess purchase price after the elimination of the UGC minority interest has been allocated to goodwill. Consistent with the requirements of Statement 142, the unaudited condensed pro forma combined statements of operations do not reflect any amortization of this goodwill. The final allocation of the purchase price will be based upon appraisals and may result in the allocation of consideration to identifiable assets and liabilities, including assets with definitive lives. To the extent that consideration is allocated to assets with definitive lives, the final allocation of the purchase price could result in additional depreciation and or amortization expense that in turn would result in higher operating losses, net losses and net loss per share in subsequent periods. For example, if \$500 million of the excess consideration had been allocated to property and equipment that had a weighted average life of 10 years, the accompanying unaudited condensed pro forma combined statements of operations of Liberty Global for the year ended December 31, 2004 would have reflected increases in, (i) the pro forma operating loss of \$50,000,000; (ii) the pro forma net loss of \$32,135,000 (based upon LMI's weighted average statutory income tax rate); and (iii) the pro forma loss per share of \$0.13.
- (d) As noted above, the amount of cash consideration payable to UGC stockholders is limited to 20% of the total consideration payable to UGC public stockholders, namely UGC stockholders other than Permitted Holders within the meaning of UGC's indenture with respect to its 3¼% convertible senior notes due 2024 (Permitted Holders). Permitted Holders include LMI, Liberty Media Corporation (Liberty), and the Chief Executive Officer and each member of the board of directors of UGC, LMI and Liberty as of April 1, 2004 and each of the Affiliated Persons, as defined, of the foregoing). The pro forma calculations of the number of shares of Liberty Global Series A common stock to be issued, the fair value of such shares to be issued, and the cash consideration to be paid under the 80% stock and 20% cash column have not been adjusted to give effect to the number of shares of UGC Class A common stock held by Permitted Holders other than LMI and its wholly owned subsidiaries. If the shares held by Permitted Holders other than LMI and its wholly owned subsidiaries had been considered in the aforementioned pro forma calculations, the pro forma amounts would not have been materially different. If the number of shares of UGC Class A common stock held by Permitted Holders were to be increased by 1 million shares above the amount currently reflected in these pro forma financial statements, the maximum cash consideration to be paid would be decreased by \$1,916,000 and the number of shares of Liberty Global Series A common stock to be issued would be increased by 215,500.
- (8) The pro forma adjustment to depreciation and amortization expense consists of the depreciation and amortization of Noos purchase price allocations to property and equipment (estimated weighted average life of 9.5 years) and amortizable intangible assets (estimated lives ranging from 3 to 6 years).
- (9) Represents the elimination of \$40,394,000 of Noos' historical interest expense, as UPC Broadband France did not assume the related debt, less \$2,692,000 of interest expense on the debt incurred by UGC to finance a portion of the Noos acquisition.
- (10) Represents the tax effects of the pro forma adjustments related to the consolidation of Super Media and J-COM. The pro forma adjustments associated with the (i) acquisitions of Noos and the remaining 19.9% minority interest in UPC Broadband France (ii) sale of LMI's equity interests in TyC and FPAS, and (iii) Proposed Mergers are expected to have no significant impact on pro forma income tax benefit (expense) due primarily to the fact that the pro forma adjustments relate to jurisdictions where valuation allowances have been provided against deferred tax assets.
- (11) Represents the share of Noos' pro forma operating results for the six months ended June 30, 2004 that is allocable to the owners of the minority interests in UGC.
- (12) Represents the pro forma adjustment to eliminate the minority interest's \$7,172,000 share of UPC Broadband France's historical net loss for the six months ended December 31, 2004, and to reflect the \$3,328,000 share of

such adjustment that is allocable to the owners of the minority interests in UGC.

- (13) Represents the elimination of (i) intercompany interest on shareholder loans between J-COM and LMI and (ii) guarantee fees earned by LMI from J-COM.
- (14) Represents the elimination of LMI's share of earnings of (i) J-COM as a result of the consolidation of Super Media and J-COM and (ii) TyC and FPAS as a result of LMI's sale of its equity interests in TyC and FPAS.

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(15) Represents pro forma adjustments to minority interests in losses (earnings) of subsidiaries as a result of the consolidation of Super Media and J-COM as follows (amounts in thousands):

|   |             |
|---|-------------|
| Minority interest in J-COM (34.77%)       | \$ (34,581) |
| Minority interest in Super Media (30.32%) | (19,670)    |
|   | \$ (54,251) |

(16) Represents the elimination of the minority interests' share of UGC's net loss as a result of the Proposed Mergers.

(17) The historical weighted average shares outstanding assume that the June 7, 2004 distribution of LMI common stock to the stockholders of Liberty occurred on January 1, 2004 and the pro forma weighted average shares outstanding assume that the number of Liberty Global common shares that would have been issued and outstanding had the Proposed Mergers occurred on December 31, 2004 were outstanding since January 1, 2004.

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**LMI ANNUAL BUSINESS MATTER PROPOSALS**

**LMI Election of Directors Proposal**

***LMI Board of Directors***

LMI's board of directors currently consists of eight directors, divided among three classes. LMI's Class I directors, whose term will expire at the LMI annual meeting, are David E. Rapley and Larry E. Romrell. These directors are nominated for re-election to LMI's board to continue to serve as Class I directors, and LMI has been informed that each of Messrs. Rapley and Romrell are willing to continue to serve as directors of LMI. The term of LMI's Class I directors who are elected at the annual meeting will expire in 2008. LMI's Class II directors, whose term will expire at the annual meeting of LMI stockholders in 2006, are Robert R. Bennett, Donne F. Fisher and M. LaVoy Robison. LMI's Class III directors, whose term will expire at the annual meeting of LMI stockholders in 2007, are John C. Malone, J.C. Sparkman and J. David Wargo. Set forth under Management of LMI Executive Officers and Directors is certain background information for each director of LMI including:

birth date;

positions held with LMI;

principal occupation, if any;

business address;

certain other directorships held; and

the year in which such person became a director of LMI.

In addition, the number of shares of LMI common stock beneficially owned by each LMI director as of March 31, 2005, is set forth under Management of LMI Security Ownership of Management.

If any nominee should decline re-election or should become unable to serve as a director of LMI for any reason before re-election, votes will be cast for a substitute nominee, if any, designated by the LMI board of directors, or, if none is so designated prior to the election, votes will be cast according to the judgment of the person or persons voting the proxy.

***Vote and Recommendation***

A plurality of the affirmative votes of the shares of LMI common stock outstanding on the record date, voting together as a single class, that are voted in person or by proxy at the annual meeting is required to elect Messrs. Rapley and Romrell as Class I members of LMI's board of directors.

*The LMI board of directors recommends a vote **FOR** the election of each nominee to LMI's board of directors.*

**LMI Incentive Plan Proposal**

***Background and Reason***

In connection with LMI's spin off from Liberty, the board of directors of LMI, on May 11, 2004, approved and adopted the Liberty Media International, Inc. 2004 Incentive Plan and determined to submit the incentive plan for the approval of Liberty, as LMI's then-sole stockholder. On May 11, 2004, Liberty, as the sole stockholder of LMI, approved the incentive plan. The compensation committee of LMI's board of directors began granting awards under the incentive plan following LMI's spin off from Liberty on June 7, 2004. For information regarding these awards, see Management of LMI Equity Compensation Plan Information Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) Outstanding Awards.

If the mergers are completed, (1) all outstanding awards under the incentive plan will be converted into awards with respect to an identical series of shares of Liberty Global common stock; (2) Liberty Global will assume the incentive plan and succeed LMI as the issuer under the incentive plan; (3) all future awards issued under the incentive plan will be with respect to Liberty Global common stock rather than LMI common stock; (4) the name of the plan will automatically change to the Liberty Global, Inc. 2005 Incentive Plan; and (5) the maximum number of shares of any



series of Liberty Global common stock with respect to which awards will be issuable by Liberty Global under the incentive plan will be 25 million, subject to anti-dilution and other adjustment provisions of the incentive plan. Prior to the amendment and restatement of the incentive plan on March 9, 2005, the maximum number of shares of any series of Liberty Global common stock with respect to which awards could have been granted under the incentive

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plan following the mergers was 20 million. LMI's compensation committee determined to amend and restate the incentive plan to provide, among other things, that, if the mergers are completed, the maximum number of shares of any series of Liberty Global common stock with respect to which awards may be issued by Liberty Global under the incentive plan will be 25 million. The increase was deemed advisable because following the mergers equity incentive awards granted to the employees of UGC and its subsidiaries will be granted under the Liberty Global plan, instead of the various UGC stock incentive plans which will no longer be available for future awards, and because Liberty Global will have a significantly larger number of shares of common stock outstanding following the mergers than LMI has currently.

If the mergers are not completed for any reason, the maximum number of shares of any series of LMI common stock with respect to which awards may be issued under the incentive plan will remain at 20 million, subject to anti-dilution and other adjustment provisions of the incentive plan.

In order for certain awards under the incentive plan to be eligible for favorable tax treatment under Section 162(m) of the Code, the incentive plan must be approved by the public stockholders of LMI. If the LMI incentive plan proposal is approved at the LMI annual meeting and the mergers are completed, no separate approval of the incentive plan by the stockholders of Liberty Global will be sought.

### ***Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)***

LMI is requesting that its stockholders approve the incentive plan. A description of the material provisions of the incentive plan is set forth under Management of LMI Equity Compensation Plan Information Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005). The summary set forth thereunder is not intended to be complete, and we refer you to the copy of the incentive plan included as Appendix A: Information Concerning Liberty Media International, Inc. Part 5: Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) to this joint proxy statement/prospectus for a complete statement of its terms and conditions.

### ***Vote and Recommendation***

The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI Series A common stock and LMI Series B common stock outstanding on the record date for the LMI annual meeting that are present, in person or by proxy, at the LMI annual meeting, voting together as a single class, is required to approve the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005).

***LMI's board of directors recommends a vote FOR the approval of the Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005).***

### **LMI Auditors Ratification Proposal**

LMI is asking its stockholders to ratify the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005.

Even if the selection of KPMG LLP is ratified, the audit committee of LMI's board in its discretion may direct the appointment of a different independent accounting firm at any time during the year if LMI's audit committee determines that such a change would be in the best interests of LMI and its stockholders. In the event LMI stockholders fail to ratify the selection of KPMG LLP, LMI's audit committee will consider it as a direction to select other auditors for the year ending December 31, 2006.

A representative of KPMG LLP is expected to be present at the LMI annual meeting, will have the opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

It is currently expected that, if the mergers are completed, KPMG LLP will serve as the independent auditors of Liberty Global for the year ending December 31, 2005.

### ***Audit Fees and All Other Fees***

The following table presents fees for professional audit services rendered by KPMG LLP and its international affiliates for the audit of the 2004 consolidated financial statements of LMI and the separate consolidated financial statements of its subsidiaries, including UGC, and fees billed for other services rendered by KPMG LLP and its international affiliates. Fees for KPMG LLP's international affiliates are largely billed in local currencies, primarily euros. Fees



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billed in currencies other than U.S. dollars were translated into U.S. dollars at the average exchange rate in effect during 2004. No fees are presented for periods prior to LMI's spin off from Liberty, which occurred on June 7, 2004.

|                                     | 2004                   | 2003       |
|-------------------------------------|------------------------|------------|
|                                     | (amounts in thousands) |            |
| Audit fees(1)                       | \$ 11,796              | N/A        |
| Audit related fees(2)               | 256                    | N/A        |
| <b>Audit and audit related fees</b> | <b>12,052</b>          | <b>N/A</b> |
| Tax fees(3)                         | 805                    | N/A        |
| All other fees                      | 153                    | N/A        |
| <b>Total fees(4)</b>                | <b>\$ 13,010</b>       | <b>N/A</b> |

- (1) Audit fees include fees for the audit of the consolidated financial statements and fees for professional consultations with respect to accounting issues, services related to reviews of quarterly financial statements, registration statement filings and issuance of consents, statutory audits, audits of internal control over financial reporting and similar matters.
- (2) Audit related fees include fees for due diligence related to potential business combinations and audits of certain employee benefit plans.
- (3) Tax fees include fees for tax compliance and consultations regarding the tax implications of certain transactions.
- (4) Total fees include \$11,996,000 incurred by UGC.

LMI's audit committee has considered whether the provision of services by KPMG LLP to LMI other than auditing is compatible with KPMG LLP maintaining its independence and does not believe that the provision of such other services is incompatible with KPMG LLP maintaining its independence.

***Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor***  
 Effective August 2, 2004, LMI's audit committee adopted a policy regarding the pre-approval of all audit and certain permissible audit-related and non-audit services provided by LMI's independent auditor. Pursuant to this policy, LMI's audit committee has approved the engagement of LMI's independent auditor to provide (a) audit services as specified in the policy, including (i) statutory and financial audits of LMI and its subsidiaries, (ii) services associated with LMI's registration statements, periodic reports and other documents filed with the SEC such as consents, comfort letters and responses to comment letters, (iii) attestations of management reports on internal controls, and (iv) consultations with management with respect to the accounting or disclosure treatment of transactions or events and the potential impact of final or proposed rules of applicable regulatory and standard setting bodies (when such consultations are considered audit services under the SEC rules promulgated pursuant to the Exchange Act), (b) audit-related services as specified in the policy, including (i) due diligence services relating to potential business acquisitions and dispositions, (ii) financial audits of employee benefit plans, (iii) consultations with management with respect to the accounting or disclosure treatment of transactions or events and the potential impact of final or proposed rules of applicable regulatory and standard setting bodies (when such consultations are considered audit-related services and not audit services under the SEC rules promulgated pursuant to the Exchange Act), (iii) attestation services not required by statute or regulation, (iv) closing balance sheet audits pertaining to dispositions, and (v) assistance with implementation of the requirements of SEC rules or listing standards promulgated pursuant to the Sarbanes-Oxley Act

of 2002; and (c) tax services as specified in the policy, including (i) planning, advice and compliance services in connection with the preparation and filing of U.S. federal, state, local or international taxes, (ii) reviews of federal state, local and international income, franchise and other tax returns, (iii) assistance with tax audits and appeals before the IRS or similar agencies, (iv) tax advice regarding the potential impact of statutory, regulatory or administrative developments, (v) expatriate tax due diligence assistance, (vi) mergers and acquisition tax due diligence assistance and (vii) tax advice and assistance regarding structuring of mergers and acquisitions (all of the foregoing, which we refer to as Pre-Approved Services). Notwithstanding the foregoing general pre-approval, any individual project involving the provision of Pre-Approved Services that is expected to result in fees in excess of \$50,000 requires the specific pre-approval of LMI's audit committee. In addition, any engagement of LMI's independent auditors for services other than the Pre-Approved Services requires the specific approval of LMI's audit committee. LMI's audit committee has delegated the authority for the foregoing approvals to its chairman. M. LaVoy Robison currently serves as the Chairman of LMI's audit committee. At each audit committee meeting, the Chairman's approval of services provided by LMI's independent auditors is subject to ratification by the entire audit committee.

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LMI's pre-approval policy prohibits the engagement of LMI's independent auditor to provide any services that are subject to the prohibition imposed by Section 201 of the Sarbanes-Oxley Act.

All services provided by LMI's independent auditor subsequent to the adoption of LMI's pre-approval policy were approved in accordance with the terms of the policy.

***Vote and Recommendation***

The affirmative vote of the holders of at least a majority of the aggregate voting power of the shares of LMI Series A common stock and LMI Series B common stock outstanding on the record date for the LMI annual meeting that are present, in person or by proxy, at the LMI annual meeting, voting together as a single class, is required to ratify the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005.

***LMI's board of directors recommends a vote FOR the ratification of the selection of KPMG LLP as LMI's independent auditors for the year ending December 31, 2005.***

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**ADDITIONAL INFORMATION**

**Legal Matters**

Legal matters relating to the validity of the securities to be issued in the mergers will be passed upon by Baker Botts L.L.P.

**Stockholder Proposals**

***Liberty Global***

We currently expect that Liberty Global's first annual meeting of stockholders will be held during the second quarter of 2006. In order to be eligible for inclusion in Liberty Global's proxy materials for its first annual meeting, any stockholder proposal must be submitted in writing to Liberty Global's Corporate Secretary and received at Liberty Global's executive offices, by the close of business on [ ] or such later date as Liberty Global may determine and announce in connection with the actual scheduling of the first annual meeting. To be considered for presentation at Liberty Global's first annual meeting, although not included in its proxy statement, any stockholder proposal must be received at the executive offices of Liberty Global on or before the close of business on [ ] or such later date as Liberty Global may determine and announce in connection with the actual scheduling of the first annual meeting.

All stockholder proposals for inclusion in Liberty Global's proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in Liberty Global's proxy materials), Liberty Global's restated certificate of incorporation, Liberty Global's bylaws and Delaware law.

***LMI***

If the mergers are not completed for any reason, LMI expects that its annual meeting of stockholders for the calendar year 2006 will be held during the second quarter of 2006. In order to be eligible for inclusion in LMI's proxy material for the 2006 annual meeting, any stockholder proposal must be submitted in writing to LMI's Corporate Secretary and received at LMI's executive offices at 12300 Liberty Boulevard, Englewood, Colorado 80112, by the close of business on [ ] or such later date as LMI may determine and announce in connection with the actual scheduling of the 2006 annual meeting. To be considered for presentation at the 2006 annual meeting, although not included in LMI's proxy statement, any stockholder proposal must be received at LMI's executive offices at the foregoing address on or before the close of business on [ ], or such later date as LMI may determine and announce in connection with the actual scheduling of the 2006 annual meeting.

All stockholder proposals for inclusion in LMI's proxy materials will be subject to the requirements of the proxy rules adopted under the Exchange Act and, as with any stockholder proposal (regardless of whether it is included in LMI's proxy materials), LMI's restated certificate of incorporation, LMI's bylaws and Delaware law.

**Where You Can Find More Information**

Liberty Global has filed with the Securities and Exchange Commission a registration statement on Form S-4 under the Securities Act with respect to the securities being offered by this joint proxy statement/ prospectus. This joint proxy statement/ prospectus, which forms a part of the registration statement, does not contain all the information included in the registration statement and the exhibits thereto. You should refer to the registration statement, including its exhibits and schedules, for further information about Liberty Global and the securities being offered hereby.

LMI and UGC are each subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, LMI and UGC each file periodic reports and other information with the Securities and Exchange Commission. You may read and copy any document that they or Liberty Global file at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street, NW, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at (800) SEC-0330. You may also inspect such filings on the Internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov). Information contained on any website referenced in this joint proxy statement/ prospectus is not incorporated by reference in this prospectus. In addition, copies of documents filed by LMI and UGC with the Securities and

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Exchange Commission are also available by contacting LMI or UGC, as applicable, by writing or telephoning the office of Investor Relations:

Liberty Media International, Inc.  
12300 Liberty Boulevard  
Englewood, Colorado 80112  
Telephone: (800) 783-7676

UnitedGlobalCom, Inc.  
4643 South Ulster Street, Suite 1300  
Denver, Colorado 80237  
Telephone: (303) 770-4001

The Securities and Exchange Commission allows UGC to incorporate by reference information into this document, which means that we can disclose important information about UGC to you by referring you to other documents. The information incorporated by reference is an important part of this joint proxy statement/ prospectus, and is deemed to be part of this document except for any information superseded by this document or any other document incorporated by reference into this document. Any statement, including financial statements, contained in UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004 shall be deemed to be modified or superseded to the extent that a statement, including financial statements, contained in this joint proxy statement/ prospectus or in any other later incorporated document modifies or supersedes that statement. We incorporate by reference the documents listed below and any future filings made by UGC with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the date of the respective stockholders meetings of LMI and UGC:

UGC's Annual Report on Form 10-K/A for the year ended December 31, 2004; and

UGC's Current Reports on Form 8-K as follows (other than the portions of those documents not deemed filed):

| <b>Date of Report</b> | <b>Date of Filing</b> |
|-----------------------|-----------------------|
| April 25, 2005        | April 28, 2005        |
| April 13, 2005        | April 19, 2005        |
| March 14, 2005        | March 14, 2005        |
| January 17, 2005      | January 24, 2005      |
| January 17, 2005      | January 18, 2005      |
| January 10, 2005      | January 12, 2005      |

Neither LMI nor UGC has authorized anyone to give any information or make any representation about the mergers, Liberty Global, LMI or UGC, that is different from, or in addition to, the information contained in this joint proxy statement/ prospectus or in any of the materials that we have incorporated into this document by reference. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/ prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/ prospectus does not extend to you. The information contained in this joint proxy statement/ prospectus speaks only as of the date of this joint proxy statement/ prospectus unless the information specifically indicates that another date applies.



**Table of Contents****APPENDIX A: INFORMATION CONCERNING LIBERTY MEDIA INTERNATIONAL, INC.  
PART 1: DESCRIPTION OF BUSINESS**

*Following the mergers, Liberty Global, Inc. will succeed to the business of Liberty Media International, Inc., which includes the business of UnitedGlobalCom, Inc. Accordingly, the following description of business is reflective of the description of Liberty Global's business following the mergers.*

**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 3¼% 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 connection with UGC's acquisition of our interest in Princes Holdings, UGC agreed to refinance our existing loans to Princes Holdings no later than June 16, 2005. An aggregate principal amount of \$79.5 million was outstanding under these loans at the time of UGC's acquisition of Princes Holdings.

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

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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. This equity interest was subject to a call right in favor of the indirect wholly owned subsidiary of UGC that holds an 80.1% equity interest in UPC Broadband France, which we refer to as UGC France Holdco. On April 1, 2005, UGC France Holdco exercised this right and purchased the 19.9% equity interest in UPC Broadband France from Suez for aggregate cash consideration of 90,105,000.

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.

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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. 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. On March 23, 2005, J-COM completed its initial public offering. Also on March 23, 2005, Sumitomo contributed to Super Media a portion of the 12.25% equity interest in J-COM that Sumitomo retained following the December 2004 contributions. Sumitomo has the obligation to contribute all of its remaining interests in J-COM to Super Media during 2005. After giving effect to the J-COM initial public offering, including the subsequent exercise of the underwriters' over-allotment option, and the March 2005 contribution by Sumitomo, Super Media owns an approximate 54.46% ownership interest in J-COM, and we own a 67.6% ownership interest in Super Media.

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.

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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.

On April 12, 2005, UPC Romania SA, an indirect wholly owned subsidiary of UGC, acquired 100% of the shares of Conex Sat, a cable television operator in Romania, from a group of private investors for aggregate cash consideration of 7 million.

On April 13, 2005, VTR GlobalCom S.A., a wholly owned subsidiary of UGC, completed its previously announced business combination with Metr polis-Intercom S.A., a company in which we owned a 50% equity interest and CristalChile Comunicaciones S.A. owned the remaining 50%, equity interest. As a result of this combination, UGC owns an 80% equity interest in VTR, which assumed Metr polis shareholder indebtedness owed to subsidiaries of CristalChile and our company with an aggregate value of approximately \$21 million. For its equity interest in Metr polis, CristalChile received the remaining 20% equity interest in VTR and an option to require UGC to purchase CristalChile's equity interest in VTR at fair market value, subject to a \$140 million floor price, and CristalChile's debt interest in VTR at par plus unpaid interest. This put option, which is payable in cash, stock of LMI, Liberty or UGC (or Liberty Global stock if the mergers are completed) or a combination of cash and stock, at UGC's option, may be exercised at any time between the first and tenth anniversaries of the closing date. We have guaranteed UGC's obligations under this put option, and UGC has agreed to indemnify us for any losses arising as a result of our guarantee of its obligations under this put option. For our equity interest in Metr polis, we received new VTR indebtedness valued at approximately \$100 million. UGC has agreed to acquire from us the subsidiary of our company that holds the \$100 million in VTR indebtedness if our pending business combination transaction with UGC does not close. The purchase price to be paid by UGC for that acquisition would be 10 million shares of UGC Class A common stock, and we would be entitled to registration rights with respect to our resale of those shares.

On April 29, 2005, we sold our entire equity interest in Fox Pan American Sports LLC, which we refer to as FPAS, and a \$4 million convertible subordinated note issued by FPAS, to another unaffiliated member of FPAS for a cash purchase price of \$5 million. In addition, we refinanced \$3.2 million of debt owed to us by Torneos y Competencias S.A., which we refer to as TyC, and our majority owned subsidiary, Liberty Programming Argentina, LLC, which we refer to as LPA LLC, sold its entire equity interest in TyC to an unrelated entity for total consideration of \$20.94 million, consisting of \$13 million in cash and a \$7.94 million secured promissory note issued by FPAS and assigned to us by the purchaser. The minority owner of LPA LLC is entitled to approximately \$4.4 million of the total consideration received in connection with the sale of TyC. TyC is an independent producer of Argentine sports and entertainment programming. FPAS develops and operates multiple Spanish language subscription television and radio services and is a principal customer of TyC.

**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 of Puerto Rico. Each of UGC, Super Media and Liberty Cablevision of 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.

|                            | <b>Video(1)</b>            |  |                                       |   |                               |                                |
|----------------------------|----------------------------|--|---------------------------------------|---|-------------------------------|--------------------------------|
|                            | <b>Homes<br/>Passed(2)</b> | <b>Two-way<br/>Homes<br/>Passed(3)</b> | <b>Basic Cable<br/>Subscribers(4)</b> | <b>Digital<br/>Cable<br/>Subscribers(5)</b> | <b>DTH<br/>Subscribers(6)</b> | <b>MMDS<br/>Subscribers(7)</b> |
| <b>Europe:</b>             |                            |  |                                       |   |                               |                                |
| UGC*                       |                            |  |                                       |   |                               |                                |
| Western Europe             | 9,528,600                  | 7,463,300                              | 5,191,200                             | 725,100                                     |                               | 89,000                         |
| Central and Eastern Europe | 4,552,200                  | 1,739,800                              | 2,618,100                             |   | 245,100                       | 32,200                         |
| <b>Total Europe</b>        | <b>14,080,800</b>          | <b>9,203,100</b>                       | <b>7,809,300</b>                      | <b>725,100</b>                              | <b>245,100</b>                | <b>121,200</b>                 |
| <b>Japan:</b>              |                            |  |                                       |   |                               |                                |
| J-COM**                    | 6,287,800                  | 6,276,200                              | 1,482,600                             | 232,000                                     |                               |                                |
| <b>Total Japan</b>         | <b>6,287,800</b>           | <b>6,276,200</b>                       | <b>1,482,600</b>                      | <b>232,000</b>                              |                               |                                |
| <b>Latin America:</b>      |                            |  |                                       |   |                               |                                |
| UGC*                       |                            |  |                                       |   |                               |                                |
| VTR                        |                            |  |                                       |   |                               |                                |
| GlobalCom                  | 1,793,900                  | 1,070,700                              | 504,600                               |   | 4,500                         | 13,900                         |
| Other                      | 82,200                     | 45,700                                 | 12,400                                |   |                               | 15,300                         |
| Liberty Cablevision        |                            |  |                                       |   |                               |                                |
| Puerto Rico                | 324,600                    | 302,800                                | 120,800                               | 43,700                                      |                               |                                |
| <b>Total Latin America</b> | <b>2,200,700</b>           | <b>1,419,200</b>                       | <b>637,800</b>                        | <b>43,700</b>                               | <b>4,500</b>                  | <b>29,200</b>                  |
| <b>Total</b>               | <b>22,569,300</b>          | <b>16,898,500</b>                      | <b>9,929,700</b>                      | <b>1,000,800</b>                            | <b>249,600</b>                | <b>150,400</b>                 |

[Additional columns below]

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

|                            | <b>Internet(1)</b>              |                       | <b>Telephony(1)</b>              |                        |
|----------------------------|---------------------------------|-----------------------|----------------------------------|------------------------|
|                            | <b>Homes<br/>Serviceable(8)</b> | <b>Subscribers(9)</b> | <b>Homes<br/>Serviceable(10)</b> | <b>Subscribers(11)</b> |
| <b>Europe:</b>             |                                 |                       |                                  |                        |
| UGC*                       |                                 |                       |                                  |                        |
| Western Europe             | 7,453,600                       | 1,042,000             | 4,044,100                        | 424,600                |
| Central and Eastern Europe | 1,733,100                       | 178,500               | 415,600                          | 68,900                 |



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|                       |                   |                  |                   |                  |
|-----------------------|-------------------|------------------|-------------------|------------------|
| Total Europe          | 9,186,700         | 1,220,500        | 4,459,700         | 493,500          |
| <b>Japan:</b>         |                   |                  |                   |                  |
| J-COM**               | 6,276,200         | 708,600          | 5,799,200         | 726,500          |
| Total Japan           | 6,276,200         | 708,600          | 5,799,200         | 726,500          |
| <b>Latin America:</b> |                   |                  |                   |                  |
| UGC*                  |                   |                  |                   |                  |
| VTR GlobalCom         | 1,070,700         | 176,300          | 1,052,700         | 310,000          |
| Other                 | 45,700            | 4,300            |                   |                  |
| Liberty Cablevision   |                   |                  |                   |                  |
| Puerto Rico           | 302,800           | 20,500           | 302,800           | 9,000            |
| Total Latin America   | 1,419,200         | 201,100          | 1,355,500         | 319,000          |
| <b>Total</b>          | <b>16,882,100</b> | <b>2,130,200</b> | <b>11,614,400</b> | <b>1,539,000</b> |
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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 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.

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**Table of Contents*****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 Vallée 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.

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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.

***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.

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.

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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.

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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 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 of at least 750 MHz. UGC-Czech offers two tiers of

analog cable programming services, with up to 31 channels, and two premium channels.

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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.

The foregoing information does not reflect the April 2005 acquisition of Conex Sat, a cable television operator in Romania.

### ***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,



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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.

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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 a result of the completion of J-COM's initial public offering on March 23, 2005, including the subsequent exercise of the underwriters over-allotment option, and certain contributions of J-COM shares made by Sumitomo to Super Media on March 23, 2005, our ownership interest in Super Media decreased to 67.6%, and Super Media's ownership interest in J-COM decreased to 54.46%. 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.

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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 67.6% by us and 32.4% 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. Following the contribution agreement closing, Sumitomo retained a 12.25% equity interest in J-COM, which Sumitomo had the obligation, subject to certain conditions, to contribute to Super Media during 2005. On March 23, 2005, Sumitomo contributed to Super Media a portion of its remaining equity interest in J-COM, and Sumitomo has the obligation to contribute all of its remaining equity interests in J-COM to Super Media during 2005. 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 7.96% interest 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 which casting vote will remain in effect for the term of Super Media. Certain decisions with respect to Super Media require the consent of both members rather than the management committee. These include a decision to engage in any business other than holding J-COM shares, sell J-COM shares, issue additional units in Super Media, make in-kind distributions or dissolve Super Media, in each case other than as contemplated by the Super Media operating agreement. While Super Media effectively has the ability to elect J-COM's entire board, pursuant to the Super Media operating agreement, Super Media is required to vote its J-COM shares in favor of the election to J-COM's board of three non-executive directors designated by Sumitomo and three non-executive directors designated by us.

Because of our casting vote, we indirectly control J-COM through our control of Super Media, which owns a controlling interest in J-COM, and therefore consolidate J-COM's results of operations for 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 was Microsoft Corporation, which held a 19.5% beneficial ownership interest in J-COM as of December 31, 2004. Microsoft's ownership interest in J-COM has since decreased to 14.15% as a result

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of the completion of J-COM's initial public offering on March 23, 2005, including the subsequent exercise of the underwriters' over-allotment option, which included the sale by Microsoft of a portion of its J-COM shares. Also as a result of the completion of J-COM's initial public offering, the J-COM stockholders agreement among Super Media, Sumitomo and Microsoft has terminated.

***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. SkyPerfectTV 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

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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.

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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, Valparaíso 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 April 13, 2005, VTR completed its previously announced business combination with Metrópolis-Intercom S.A., a cable operator in Chile, in an effort to facilitate the provision of enhanced services to cable and telecommunications consumers in the Chilean marketplace. As a result of this combination, UGC owns an 80% equity interest in VTR, CristalChile Comunicaciones S.A., our partner in Metrópolis, received the remaining 20% equity interest in VTR for its equity interest in Metrópolis and we received VTR indebtedness valued at approximately \$100 million for our equity interest in Metrópolis. CristalChile also has an option to require UGC to purchase CristalChile's equity interest in VTR at fair market value, subject to a \$140 million floor price, and CristalChile's debt interest in VTR at par plus unpaid interest. This put option, which is payable in cash, stock of LMI, Liberty or UGC (or Liberty Global stock if



the mergers are completed) or a combination of cash and stock, at UGC's option, may be exercised at any time between the first and tenth anniversaries of the closing date. We have guaranteed UGC's obligations under this put option, and UGC has agreed to indemnify us for any losses arising as a result of our guarantee of its obligations under this put option.

For so long as CristalChile owns at least a 10% equity interest in VTR, CristalChile has the right to elect 1 of the 5 members of VTR's board and has a veto right over certain material decisions.

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**Table of Contents*****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, but the parties subsequently 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. In April 2004, the parties negotiated a new affiliation agreement, which is subject to ratification by the board of directors of Cablevisión. The new affiliation agreement would expire June 30, 2007. If the new affiliation agreement is ratified, Cablevisión will continue to pay Pramer, through May 2006, a fixed monthly fee which represents an approximate 35% discount from the applicable fees in 2004, and thereafter the fixed monthly fee may be adjusted upward based upon Cablevisión basic subscriber increases and service fee increases.

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*

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

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224,800 basic cable subscribers, 38,200 Internet subscribers and 10,800 telephony subscribers. As discussed under VTR GlobalCom S.A. above, on April 13, 2005, VTR completed its previously announced business combination with Metr polis, a company in which we owned a 50% equity interest and CristalChile Comunicaciones S.A., a large publicly traded Chilean company with significant media interests, owned the remaining 50% equity interest. As a result of this combination, VTR has obtained control of the business operations of Metr polis.

### **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);

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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

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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.

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**Table of Contents***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

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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.

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**Table of Contents***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.

## **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.

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.





**Table of Contents****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.

*Signal.* On April 26, 2002, UPC received a notice that certain former shareholders of Signal 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

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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. In connection with the Delaware lawsuits, defendants have been served with one request for production of documents. On February 11, 2005, the Delaware Court of Chancery consolidated all twenty-one Delaware lawsuits into a single action. Under the terms of the court's consolidation order, the plaintiffs are required to file a consolidated amended complaint as soon as practicable, and the defendants are not required to respond to any other complaints filed in the twenty-one constituent actions. As of the date of this joint proxy statement/prospectus, the plaintiffs have not filed a consolidated amended complaint and, pursuant to the terms of the court order, the defendants have not filed an answer or other response. The defendants believe the lawsuits are without merit.

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**Table of Contents****APPENDIX A: INFORMATION CONCERNING LIBERTY MEDIA INTERNATIONAL, INC.  
PART 2: CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS****Agreements with or relating to UGC**

In connection with the spin off of LMI from Liberty, Liberty contributed substantially all of its shares of UGC common stock and related contract rights and obligations to LMI. Accordingly, we have described below certain contracts, agreements and arrangements entered into by Liberty prior to the date of the spin off and contributed or assigned by Liberty to LMI in connection with the spin off.

***UGC Merger Agreement***

On January 30, 2002, pursuant to an Amended and Restated Agreement and Plan of Merger, dated December 31, 2001, among Liberty, UGC, UGC's predecessor (Old UGC) and certain of their respective subsidiaries, Liberty contributed to UGC all of the Class B common stock of Old UGC and some of the Class A common stock of Old UGC that it held in exchange for newly issued shares of UGC Class C common stock. Immediately after these contributions and contributions to UGC by the founding stockholders of Old UGC (the founders), UGC acquired Old UGC by merger of a subsidiary of UGC with and into Old UGC. As a result of the merger, UGC became a publicly traded company. Immediately following the merger, Liberty contributed to UGC certain assets, including \$200 million in cash, in exchange for additional shares of UGC common stock. After giving effect to the contributions as well as certain other transactions, Liberty owned approximately 74% of UGC's outstanding equity and approximately 94% of UGC's outstanding voting power, subject to limitations on Liberty's voting rights.

In connection with these transactions, on January 30, 2002, Liberty, UGC, Old UGC and the founders entered into other agreements relating to the governance of UGC and Old UGC, which, among other things, ensured that the founders remained in control of UGC, as well as agreements relating to UGC securities. These agreements included a stockholders agreement, a standstill agreement and a registration rights agreement. Except for the provisions described below, each of these agreements was terminated on January 5, 2004, in connection with Liberty's acquisition of all of the outstanding shares of UGC Class B common stock from the founders.

***Senior Notes***

Also on January 30, 2002, UGC acquired from Liberty approximately \$751.2 million principal amount at maturity of the senior notes of Old UGC held by Liberty, as well as the debt and equity interests owned by Liberty in an entity that held approximately \$598.8 million principal amount at maturity of the senior notes of Old UGC, in exchange for approximately \$304.6 million of indebtedness owed by Liberty to Old UGC and cash in the amount of approximately \$143.9 million.

***Registration Rights Agreement***

On January 30, 2002, UGC, Liberty and certain subsidiaries of Liberty entered into a registration rights agreement. In connection with the spin off, LMI became entitled to the benefits of the demand and piggy-back registration rights set forth in the registration rights agreement. The registration rights agreement is expected to be terminated in connection with the consummation of the mergers.

***Old Standstill Agreement; Letter Agreement***

On January 30, 2002, UGC, Liberty and certain subsidiaries of Liberty entered into a standstill agreement (which we refer to as the old standstill agreement). Pursuant to the old standstill agreement, Liberty was entitled to, among other things, certain preemptive rights with respect to issuances of shares of UGC Class A common stock. On November 12, 2003, Liberty entered into a letter agreement with UGC pursuant to which Liberty agreed to a limited waiver of its preemptive rights in connection with the consummation of the acquisition of UGC Europe, Inc. by UGC, provided that Liberty's preemptive rights under the old standstill agreement would survive the termination of the old standstill agreement, subject to modification. These preemptive rights were contributed to LMI in connection with the spin off. Pursuant to these preemptive rights, if UGC issued any shares of its Class A common stock or rights to acquire such common stock, LMI has the right, but not the obligation, to purchase a portion of such issuance (subject to certain exceptions), on terms at least as favorable as those given to any third party purchasers, sufficient to permit LMI and its affiliates to hold an amount of UGC equity securities, in each case after giving effect to such offering, equal to the lesser of (1) 55% of UGC's issued and outstanding shares of common stock and (2) the equity percentage

in UGC

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held by LMI and its affiliates in UGC immediately prior to such issuance. The old standstill agreement and the letter agreement are expected to be terminated in connection with the consummation of the mergers.

***Founders Transaction***

On January 5, 2004, Liberty acquired approximately 8.2 million shares of UGC Class B common stock from the founders, including Gene W. Schneider, Chairman of the Board and former Chief Executive Officer of UGC, and certain trusts for the benefit of Mr. Schneider's family, representing all of the outstanding shares of UGC Class B common stock, in exchange for approximately 12.6 million shares of Liberty Series A common stock and approximately \$12.9 million in cash. We refer to this transaction as the founders transaction. Upon the consummation of the founders transaction, the material terms of the old standstill agreement terminated, but the preemptive rights set forth therein survived in accordance with and as modified by the letter agreement, and Liberty obtained the power to elect all of the members of UGC's board of directors and, generally, to control UGC.

***Noncompetition and Nonsolicitation Agreements***

On December 19, 2003, in connection with the founders transaction, Liberty entered into noncompetition and nonsolicitation agreements with Michael T. Fries, Chief Executive Officer and a director of UGC, Mark L. Schneider, former director of UGC and former Chief Executive Officer of the chellomedia division of UGC Europe, Ellen P. Spangler, Senior Vice President of Business and Legal Affairs and Secretary of UGC, and Tina M. Wildes, former director and former Senior Vice President of Business Administration of UGC, providing for the issuance of, respectively, 228,750 shares, 228,750 shares, 134,935 shares and 134,934 shares of Liberty Series A common stock to such persons in exchange for certain noncompetition and nonsolicitation covenants from such persons to Liberty. In connection with the spin off of LMI from Liberty, the benefits of these agreements were assigned to LMI.

***New Standstill Agreement***

On January 5, 2004, in connection with the founders transaction, Liberty and UGC entered into a standstill agreement (which we refer to as the new standstill agreement). The new standstill agreement, which Liberty assigned to LMI in connection with the spin off, generally limits LMI's ownership of UGC's common stock to 90% or less, unless LMI makes an offer or effects another transaction to acquire all of UGC's common stock. Except in the case of a short-form merger in which UGC's stockholders are entitled to statutory appraisal rights, such offer or transaction must be at a price at or above a fair value of UGC's shares determined through an appraisal process if a majority of UGC's independent directors has voted against approval or acceptance of such transaction. The mergers comply with LMI's obligations under the new standstill agreement. The new standstill agreement is expected to be terminated in connection with the consummation of the mergers.

***UGC Services Agreement***

On June 7, 2004, LMI and UGC entered into an agreement pursuant to which they agreed to obtain certain services from each other. Pursuant to the UGC services agreement, UGC provides LMI with specified services and benefits, including employee benefit administration, payroll, tax withholding, workers' compensation administration and enrollment in UGC's benefit plans, in each case with respect to persons employed by LMI, and such other services as LMI and UGC may from time to time mutually determine to be necessary or desirable. Also, pursuant to the UGC services agreement, LMI provides to UGC certain services typically performed by accounting and tax department personnel, which may include services provided to LMI by Liberty's accounting and tax department personnel pursuant to a facilities and services agreement that LMI entered into with Liberty. See [Agreements with Liberty](#) Liberty Services Agreement below.

Pursuant to the UGC services agreement, LMI pays UGC an annual fee of \$20,000 for providing the foregoing benefits and services to LMI and its employees. In addition, LMI reimburses UGC for direct out-of-pocket costs incurred by UGC for third party services in providing the foregoing benefits and services to LMI and LMI's employees. UGC pays LMI the portion of any accounting or tax department personnel costs (taking into account wages and fringe benefits) that is expected to be attributable to time spent performing services for UGC under the UGC services agreement. LMI and UGC evaluate all charges for reasonableness periodically and make any adjustments as they mutually agree upon.

The UGC services agreement was renewed automatically on January 1, 2005. The UGC services agreement is expected to be terminated in connection with the consummation of the mergers.

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***Other***

In addition to the foregoing, LMI and certain of its subsidiaries have from time to time entered into transactions with UGC and certain of its subsidiaries. For more information regarding these transactions, please see Appendix A: Information Concerning Liberty Media International, Inc. Part 1: Description of Business Recent Developments. During the past two years, LMI has, and prior to LMI's spin off Liberty has, from time to time acquired securities of UGC. For information regarding these share acquisitions, please see Special Factors Fairness Determinations of the Boards of Directors of LMI, Liberty Global, LMI Merger Sub and UGC Merger Sub Fairness Determination of the LMI Board.

**Interests of Certain Directors and Executive Officers of LMI and UGC in the Mergers**

Certain directors and executive officers of LMI and UGC have material interests in addition to or different from those of the public stockholders of LMI and UGC relating to the mergers. For information regarding these interests, please see Special Factors Interests of Certain Persons in the Mergers and Management of LMI Director Compensation in the joint proxy statement/ prospectus.

**Agreements with Liberty**

In connection with LMI's spin off from Liberty, LMI and Liberty entered into a series of agreements, under which LMI has certain rights and liabilities. The following is a summary of the terms of the material agreements LMI entered into with Liberty. This summary is qualified by reference to the full text of the agreements which have been included as exhibits to the registration statement on Form S-4 being filed by Liberty Global in connection with the mergers.

***Reorganization Agreement***

On June 7, 2004, LMI, Liberty and certain subsidiaries of Liberty entered into a reorganization agreement to provide for, among other things, the principal corporate transactions required to effect the spin off of LMI. Pursuant to the reorganization agreement, Liberty transferred to LMI, or caused its subsidiaries to transfer to LMI, substantially all of the assets comprising Liberty's International Group not already held by LMI, cash and certain financial assets. The reorganization agreement provides for mutual indemnification obligations, which are designed to make LMI financially responsible for substantially all of the liabilities relating to the businesses of Liberty's International Group prior to the spin off, as well as for all liabilities incurred by LMI after the spin off, and to make Liberty financially responsible for all of LMI's potential liabilities which are not related to LMI's businesses, including, for example, liabilities arising as a result of LMI having been a subsidiary of Liberty. In addition, the reorganization agreement provides for each of LMI and Liberty to preserve the confidentiality of all confidential or proprietary information of the other party for three years following the spin off, subject to customary exceptions, including disclosures required by law, court order or government regulation.

***Liberty Services Agreement***

On June 7, 2004, LMI and Liberty entered into a facilities and services agreement pursuant to which Liberty provides LMI with specified services and benefits, including:

the lease of office space at Liberty's executive headquarters, including furniture and furnishings and the use of building services;

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

insurance administration and risk management services;

other services typically performed by Liberty's accounting, treasury, engineering, legal, investor relations and tax department personnel; and

such other services as LMI and Liberty may from time to time mutually determine to be necessary or desirable.

LMI makes payments to Liberty under the Liberty services agreement based upon an annual per-square foot occupancy charge and an allocated portion of Liberty's personnel costs (taking into account wages and fringe benefits) of the departments expected to provide services to LMI. The allocated portion of these personnel costs will be based

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upon the anticipated percentages of time to be spent by Liberty personnel in each department performing services for LMI under the Liberty services agreement. LMI also reimburses Liberty for direct out-of-pocket costs incurred by Liberty for third party services provided to LMI that are not included in LMI's occupancy charge. LMI and Liberty evaluate all charges for reasonableness semi-annually and make any adjustments to these charges as they mutually agree upon. LMI paid Liberty approximately \$1.325 million in fees under the Liberty services agreement for the period beginning on the date of the spin off and ending on December 31, 2004.

The Liberty services agreement will continue in effect for two years, unless earlier terminated (1) by LMI at any time on at least 30 days' prior written notice, (2) by Liberty at any time on at least 180 days' prior notice, (3) by Liberty upon written notice to LMI, following certain changes in control of LMI or LMI being the subject of certain bankruptcy or insolvency-related events, or (4) by LMI upon written notice to Liberty, following certain changes in control of Liberty or Liberty being the subject of certain bankruptcy or insolvency-related events. The mergers do not result in a change in control of LMI under the Liberty services agreement.

***Agreements for Aircraft Joint Ownership and Management***

Prior to the spin off, Liberty transferred to LMI a 25% ownership interest in two of Liberty's aircraft. In connection with the transfer, LMI and Liberty entered into certain agreements pursuant to which, among other things, LMI and Liberty share the costs of Liberty's flight department and the costs of maintaining and operating the jointly owned aircraft. Costs are allocated based upon either LMI's and Liberty's respective usage or ownership of such aircraft, depending on the type of cost. LMI's allocable share of costs under these agreements amounted to approximately \$229,000 for the period beginning on the date of the spin off and ending on December 31, 2004.

***Tax Sharing Agreement***

Prior to the spin off, LMI entered into a tax sharing agreement with Liberty that governs Liberty's and LMI's respective rights, responsibilities and obligations with respect to taxes and tax benefits, the filing of tax returns, the control of audits and other tax matters. References in this summary description of the tax sharing agreement to the terms "tax" or "taxes" mean taxes as well as any interest, penalties, additions to tax or additional amounts in respect of such taxes. Prior to the spin off, LMI and its eligible subsidiaries joined with Liberty in the filing of a consolidated return for U.S. federal income tax purposes and also joined with Liberty in the filing of certain consolidated, combined, and unitary returns for state, local, and foreign tax purposes. However, for periods (or portions thereof) beginning after the spin off, LMI no longer joins with Liberty in the filing of any federal, state, local or foreign consolidated, combined or unitary tax returns.

Under the tax sharing agreement, except as described below, Liberty is responsible for all U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes LMI or one of LMI's subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand. In addition, except for certain liabilities relating to dual consolidated losses and gain recognition agreements that are described below, Liberty will indemnify LMI and its subsidiaries against any liabilities arising under its tax sharing agreement with AT&T Corp. LMI is responsible for all other taxes (including income taxes not reported on a consolidated, combined, or unitary return by Liberty or its subsidiaries) that are attributable to LMI or one of its subsidiaries, whether accruing before, on or after the spin off. LMI has no obligation to reimburse Liberty for the use, in any period following the spin off, of a tax benefit created before the spin off, regardless of whether such benefit arose with respect to taxes reported on a consolidated, combined or unitary basis.

Notwithstanding the tax sharing agreement, under U.S. Treasury Regulations, each member of a consolidated group is severally liable for the U.S. federal income tax liability of each other member of the consolidated group. Accordingly, with respect to periods in which LMI (or LMI's subsidiaries) have been included in Liberty's, AT&T Corp.'s or Tele-Communications, Inc.'s consolidated group, LMI (or LMI's subsidiaries) could be liable to the U.S. government for any U.S. federal income tax liability incurred, but not discharged, by any other member of such consolidated group. However, if any such liability were imposed, LMI would generally be entitled to be indemnified by Liberty for tax liabilities allocated to Liberty under the tax sharing agreement.

LMI's ability to obtain a refund from a carryback of a tax benefit to a year in which LMI and Liberty (or any of their respective subsidiaries) joined in the filing of a consolidated, combined or unitary return will be at the discretion of

Liberty. Moreover, any refund that LMI may obtain will be net of any increase in taxes resulting from the carryback for which Liberty is otherwise liable under the tax sharing agreement.

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The tax sharing agreement provides that LMI will enter into a closing agreement with the Internal Revenue Service with respect to unrecaptured dual consolidated losses attributable to LMI or any of its subsidiaries under Section 1503(d) of the Code. Moreover, LMI agreed to be liable for any deemed adjustment to taxes resulting from the recapture of any dual consolidated loss so attributed to LMI, if such loss is required to be recaptured as a result of one or more specified events described in the U.S. Treasury Regulations occurring after the distribution date. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the recaptured dual consolidated loss multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. LMI must also indemnify and hold harmless Liberty and its subsidiaries against any liability arising under Liberty's tax sharing agreement with AT&T Corp. with respect to such recaptured dual consolidated loss.

The tax sharing agreement provides that LMI is liable for any deemed adjustment to taxes resulting from the recognition of gain pursuant to a gain recognition agreement entered into by Liberty (or any parent of a consolidated group of which LMI or any of its subsidiaries were formerly a member) in accordance with Treasury Regulations Section 1.367(a)-8(b), but only if the recognition of such gain results in an adjustment to the basis of any property held by LMI or any of its subsidiaries. For purposes of the tax sharing agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties. LMI must also indemnify and hold harmless Liberty and its subsidiaries against any liability arising under its tax sharing agreement with AT&T Corp. with respect to such recognition of gain. However, the amount LMI is required to indemnify Liberty and its subsidiaries for any deemed adjustment to taxes or any liability arising under Liberty's tax sharing agreement with AT&T Corp. will be reduced by any amount that Liberty or any of its subsidiaries receives pursuant to any indemnification arrangement with any other person arising from or relating to recognition of gain under such gain recognition agreement.

To the extent permitted by applicable tax law, LMI and Liberty will treat any payments made under the tax sharing agreement as a capital contribution or distribution (as applicable) made immediately prior to the spin off, and accordingly, as not includible in the taxable income of the recipient. However, if any payment causes, directly or indirectly, an increase in the taxable income of the recipient (or its affiliates), the payor's payment obligation will be grossed up to take into account the deemed taxes owed by the recipient (or its affiliates).

LMI is responsible for preparing and filing all tax returns that include LMI or one of its subsidiaries other than any consolidated, combined or unitary income tax return that includes LMI or one of its subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand, and LMI has the authority to respond to and conduct all tax proceedings, including tax audits, involving any taxes or any deemed adjustment to taxes reported on such tax returns. Liberty is responsible for preparing and filing all consolidated, combined or unitary income tax returns that include LMI or one of its subsidiaries, on the one hand, and Liberty or one of its subsidiaries, on the other hand, and Liberty has the authority to respond to and conduct all tax proceedings, including tax audits, relating to taxes or any deemed adjustment to taxes reported on such tax returns. Liberty also has the authority to respond to and conduct all tax proceedings relating to any liability arising under its tax sharing agreement with AT&T Corp. LMI is entitled to participate in any tax proceeding involving any taxes or deemed adjustment to taxes, or any liabilities under Liberty's tax sharing agreement with AT&T Corp., for which LMI is liable under the tax sharing agreement. The tax sharing agreement further provides for cooperation between Liberty and LMI with respect to tax matters, the exchange of information and the retention of records that may affect the tax liabilities of the parties to the agreement.

Finally, the tax sharing agreement requires that neither LMI nor any of its subsidiaries will take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction to Liberty and to Liberty's stockholders as of the record date for the spin off under Section 355 of the Code. Moreover, LMI must indemnify Liberty and its subsidiaries, officers and directors for any loss, including any deemed adjustment to taxes of Liberty, resulting from (1) such action or failure to act, if such action or failure to act precludes the spin off from qualifying as a tax-free transaction or (2) any breach of any representation or covenant given by LMI or one of its subsidiaries in connection with the tax opinion delivered to Liberty by Skadden, Arps, Slate, Meagher & Flom LLP and any other tax opinion delivered to Liberty, in each case relating to the qualification of the spin off as a tax-free distribution described in Section 355 of the Code. For purposes of the tax sharing

agreement, the deemed adjustment to taxes generally will be an amount equal to the gain recognized by Liberty multiplied by the highest applicable statutory rate for the applicable taxing jurisdiction, plus interest and any penalties.

**Transfer of Interests in Cablevisión S.A.**

On November 2, 2004, Liberty, VLG Acquisition LLC, Liberty Media International Holdings, LLC (a subsidiary of LMI) and Mr. Fred A. Vierra, the then-sole shareholder of VLG Acquisition, entered into an agreement with a third party to transfer to the third party, for aggregate cash consideration of \$65 million, all outstanding equity interests in

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VLG Argentina and all of LMI's indirect rights and obligations pursuant to Cablevisión S.A.'s debt restructuring agreement to contribute \$27,500,000 to Cablevisión in exchange for newly issued Cablevisión shares representing approximately 40.0% of Cablevisión's fully diluted post-restructuring equity. Liberty owned a 78.2% economic and non-voting interest in VLG Argentina, and VLG Acquisition owned a 21.8% economic interest and all of the voting interests in VLG Argentina. VLG Argentina owns a 50% interest in Cablevisión. Of the aggregate consideration deliverable by the third party under this agreement, LMI was allocated \$40.5 million, Liberty was allocated \$13.4 million and VLG Acquisition was allocated \$11.1 million. Each of LMI, Liberty and VLG Acquisition received 50% of its allocable amount in November 2004 upon signing of the agreement and the remaining 50% of its allocable amount in March 2005 upon consummation of the transaction.

David J. Leonard is an executive officer of LMI, and John H. Gowen is an officer of LMI. Prior to joining LMI, Messrs. Leonard and Gowen held indirect equity interests in VLG Acquisition, which they sold to Mr. Vierra. In connection with this sale, Messrs. Leonard and Gowen each retained a contractual right to 33% of any proceeds in excess of \$100,000 from the sale of VLG Acquisition's interest in VLG Argentina or from distributions to VLG Acquisition by VLG Argentina in connection with a sale of VLG Argentina's interest in Cablevisión. As a result of these rights, Messrs. Leonard and Gowen each received approximately \$3.64 million in cash consideration in connection with the transfer to the third party by VLG Acquisition of its interests in VLG Argentina, as described above.

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**APPENDIX A: INFORMATION CONCERNING LIBERTY MEDIA INTERNATIONAL, INC.  
PART 3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND  
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**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 LMI 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. 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 began accounting for Super Media as a consolidated subsidiary effective January 1, 2005. J-COM owns and operates broadband businesses



in Japan. On March 23, 2005, J-COM completed its initial public offering of its common shares. Also on March 23,  
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2005, Sumitomo contributed to Super Media a portion of the 12.25% equity interest in J-COM that Sumitomo retained following the December 2004 contributions, decreasing LMI's interest in Super Media to 67.6%. Sumitomo is obligated to contribute all of its remaining interest in J-COM to Super Media during 2005. After giving effect to the J-COM initial public offering, including the subsequent exercise of the underwriters' over-allotment option, and the March 2005 contribution by Sumitomo, Super Media's ownership interest in J-COM was approximately 54.46%. 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.

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.

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**Table of Contents***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.

*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:

|  | <b>Year ended December 31,</b> |               |
|--|--------------------------------|---------------|
|  | <b>2004</b>                    | <b>2003</b>   |
|  | <b>as restated(1)</b>          |               |
|  | <b>amounts in thousands</b>    |               |
| 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)                       |               |
| Embedded equity and other derivatives        | 23,032                         |               |
| Variable forward transaction                 | 1,013                          |               |
| Call agreements on LMI Series A common stock | 1,713                          |               |
| Other  | (16)                           | (2,416)       |
|  | <b>\$ (35,775)</b>             | <b>12,762</b> |

(1) See note 23 to the accompanying consolidated financial statements.

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

**Table of Contents***Foreign currency transaction gains (losses), net*

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

|  | <b>Year ended December 31,</b> |              |
|--|--------------------------------|--------------|
|  | <b>2004</b>                    | <b>2003</b>  |
|  | <b>as restated(1)</b>          |              |
|  | <b>amounts in thousands</b>    |              |
| Repayment of yen denominated shareholder loans(2)  | \$ 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  | (51,903)                       |              |
| 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        |
|  | <b>\$ 117,657</b>              | <b>5,412</b> |

- (1) See note 23 to the accompanying consolidated financial statements.
- (2) 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

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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

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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 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 Metr polis and Torneos, respectively. We recorded the Metr polis impairment in connection with an evaluation of the carrying value of our investment in Metr polis 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:

|            | <b>Year ended December 31,</b> |             |
|------------|--------------------------------|-------------|
|            | <b>2003</b>                    | <b>2002</b> |
|            | <b>amounts in thousands</b>    |             |
| J-COM      | \$ 20,341                      | (21,595)    |
| JPC        | 11,775                         | 5,801       |
| Metr polis | (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 Metr polis. The Metr polis 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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**Table of Contents***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:

|                              | <b>Year ended December 31,</b> |             |
|------------------------------|--------------------------------|-------------|
|                              | <b>2003</b>                    | <b>2002</b> |
|                              | <b>amounts in thousands</b>    |             |
| 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:

|  | <b>Year ended December 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2003</b>                    | <b>2002</b> |
|  | <b>amounts in thousands</b>    |             |
| 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:

|                   | <b>Year ended December 31,</b> |             |
|-------------------|--------------------------------|-------------|
|                   | <b>2003</b>                    | <b>2002</b> |
|                   | <b>amounts in thousands</b>    |             |
| Sky Latin America | \$ 6,884                       | 105,250     |
| Telewest bonds    |                                | 141,271     |
| Other             |                                | 865         |
|                   | \$ 6,884                       | 247,386     |

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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.

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.



**Table of Contents****Revenue of our Reportable Segments***Revenue Years ended December 31, 2004 and 2003*

|   |                 | Year ended December 31, |             | Increase (decrease) |        | Increase (decrease)<br>excluding FX |        |
|---|-----------------|-------------------------|-------------|---------------------|--------|-------------------------------------|--------|
|   |                 | 2004                    | 2003        | \$                  | %      | \$                                  | %      |
| <b>amounts in thousands, except % amounts</b> |                 |                         |             |                     |        |                                     |        |
| 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.

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**Table of Contents***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      | \$                  | %     | \$                               | %      |
| <b>amounts in thousands, except % amounts</b> |                           |                         |           |                     |       |                                  |        |
| 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

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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.

**Table of Contents****Operating Expenses of our Reportable Segments***Operating expenses Years ended December 31, 2004 and 2003*

|  |                 | Year ended December 31, |             | Increase (decrease) |        | Increase (decrease)<br>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.

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**Table of Contents***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)<br>excluding FX |         |
|---|-----------------|-------------------------|-------------|---------------------|--------|-------------------------------------|---------|
|   |                 | 2003                    | 2002        | \$                  | %      | \$                                  | %       |
| <b>amounts in thousands, except % amounts</b> |                 |                         |             |                     |        |                                     |         |
| 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.

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**Table of Contents***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.

**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      | \$                  | %      | \$                               | %      |
| <b>amounts in thousands, except % amounts</b> |  |                         |           |                     |        |                                  |        |
| 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.

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**Table of Contents***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 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)<br>excluding FX |         |
|---|-----------------|-------------------------|-----------|---------------------|-------|-------------------------------------|---------|
|   |                 | 2003                    | 2002      | \$                  | %     | \$                                  | %       |
| <b>amounts in thousands, except % amounts</b> |                 |                         |           |                     |       |                                     |         |
| 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

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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)<br>excluding FX |        |
|---|-----------------|-------------------------|-------------|---------------------|--------|-------------------------------------|--------|
|   |                 | 2004                    | 2003        | \$                  | %      | \$                                  | %      |
| <b>amounts in thousands, except % amounts</b> |                 |                         |             |                     |        |                                     |        |
| 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.

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**Table of Contents****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)<br>excluding FX |          |
|---|-----------------|-------------------------|-----------|---------------------|----------|-------------------------------------|----------|
|   |                 | 2003                    | 2002      | \$                  | %        | \$                                  | %        |
| <b>amounts in thousands, except % amounts</b> |                 |                         |           |                     |          |                                     |          |
| 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.

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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

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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.

At December 31, 2004, we held a 50% interest in Metr polis, a cable operator in Chile, and CristalChile Comunicaciones S.A. owned the remaining 50% equity interest. 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 Metr polis and VTR, a wholly owned subsidiary of UGC. On April 13, 2005, VTR completed the business combination with Metr polis. As a result of this combination, UGC owns an 80% equity interest in VTR, which assumed Metr polis' shareholder indebtedness owed to subsidiaries of CristalChile and our company with an aggregate value of approximately \$21 million. For its equity interest in Metr polis, CristalChile received the remaining 20% equity interest in VTR and an option to require UGC to purchase CristalChile's equity interest in VTR at fair market value, subject to a \$140 million floor price, and CristalChile's debt interest in VTR at par plus unpaid interest. This put option, which is payable in cash, stock of LMI, Liberty or UGC (or Liberty Global if the pending business combination transaction with UGC closes) or a combination of cash and stock, at UGC's option, may be exercised at any time between the first and tenth anniversaries of the closing date. We have guaranteed UGC's obligations under this put option, and UGC has agreed to indemnify us for any losses arising as a result of our guarantee of its obligations under this put option. For our equity interest in Metr polis, we received new VTR indebtedness valued at approximately \$100 million. UGC has agreed to acquire from us the subsidiary of our company that holds this indebtedness if our pending business combination transaction with UGC does not close. The purchase price to be paid by UGC for this acquisition would be 10 million shares of UGC Class A common stock, and we would be entitled to registration rights with respect to our resale of those shares.

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.

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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 began 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

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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

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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.

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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

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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, our income tax accounting and our accounting for derivative instruments 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.

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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.

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.

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**Table of Contents***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.

*Derivative Instruments*

We have entered into free-standing derivative instrument contracts such as total return bond swaps, variable forward transactions and foreign currency derivative instruments. In addition, we have entered into other contracts, such as the UGC Convertible Notes that contain embedded derivative financial instruments. All derivatives are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the derivative instruments that were in effect during the three years ended December 31, 2004 were designated as hedges.

We use a binomial model to estimate the fair value of the derivative instrument embedded in the UGC Convertible Notes. This model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security, an appropriate discount rate and the U.S. dollar to euro exchange rate. Volatility rates are based on the expected volatility of the underlying security over the term of the derivative instrument, and are adjusted quarterly. U.S. dollar to euro exchange rates are based on published indices, and are adjusted quarterly. Considerable management judgment is required in estimating these variables. Actual results upon settlement of this embedded derivative instrument may differ materially from these estimates.

***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

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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. On April 1, 2005, UPC France exercised its right under the call option and purchased the remaining 19.9% equity interest in UPC Broadband France from Suez for aggregate cash consideration of 90,105,000.

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.

As discussed above, the businesses of VTR and Metr polis were combined on April 13, 2005. In connection with the closing of this transaction, CristalChile, the holder of the 20% minority interest in VTR, acquired the right to require UGC to purchase CristalChile's equity interest in VTR at fair market value, subject to a \$140 million floor price, and CristalChile's debt interest in VTR at par plus unpaid interest. This put option, which is payable in cash, stock of LMI, Liberty or UGC (or Liberty Global if the pending business combination transaction with UGC closes) or a combination of cash and stock, at UGC's option, may be exercised at any time between the first and tenth anniversaries of the closing date. We have guaranteed UGC's obligations under this put option, and UGC has agreed to indemnify us for any losses arising as a result of our guarantee of its obligations under this put option.

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.



**Table of Contents***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:

|                            | <b>Payments due during years ended December 31,</b> |                  |                  |                   |              |
|----------------------------|---|------------------|------------------|-------------------|--------------|
|                            | <b>2005</b>   | <b>2006-2007</b> | <b>2008-2009</b> | <b>Thereafter</b> | <b>Total</b> |
|                            | <b>amounts in thousands</b>                         |                  |                  |                   |              |
| 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.

**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 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.

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**Table of Contents*****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<sup>1</sup>/<sub>2</sub> 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:

|                   | <b>Spot rate</b> |                     |                     |
|-------------------|------------------|---------------------|---------------------|
|                   | <b>Euro</b>      | <b>Japanese yen</b> | <b>Chilean peso</b> |
| 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              |

|                   | <b>Average rate</b> |                     |                     |
|-------------------|---------------------|---------------------|---------------------|
|                   | <b>Euro</b>         | <b>Japanese yen</b> | <b>Chilean peso</b> |
| 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.

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**Table of Contents*****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

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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. We are exposed to fluctuations in the fair value of derivatives embedded in our financial instruments. The UGC Convertible Notes contain an equity derivative component that is indexed to both UGC Class A common stock (traded in U.S. dollars) and to currency exchange rates (euro to U.S. dollar). Changes in the fair value of this derivative are recorded in our consolidated statement of operations.

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.

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**APPENDIX A: INFORMATION CONCERNING LIBERTY MEDIA INTERNATIONAL, INC.  
PART 4 HISTORICAL FINANCIAL STATEMENTS OF LMI AND ITS  
SIGNIFICANT AFFILIATES AND ACQUIREES**

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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.

As discussed in Note 23, the consolidated financial statements as of and for the year ended December 31, 2004 have been restated.

KPMG LLP

Denver, Colorado  
March 11, 2005, except as  
to Note 23, which  
is as of April 27, 2005

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

|  | <b>December 31,</b>              |                  |
|--|----------------------------------|------------------|
|  | <b>2004</b>                      | <b>2003</b>      |
|  | <b>as restated<br/>(note 23)</b> |                  |
|  | <b>amounts in thousands</b>      |                  |
| <b>ASSETS</b>  |                                  |                  |
| 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           |
| <b>Total current assets</b>  | <b>3,192,583</b>                 | <b>44,336</b>    |
| 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           |
| <b>Total assets</b>  | <b>\$ 13,702,363</b>             | <b>3,687,037</b> |

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

|   | <b>December 31,</b>              |             |
|---|----------------------------------|-------------|
|   | <b>2004*</b>                     | <b>2003</b> |
|   | <b>as restated<br/>(note 23)</b> |             |
|   | <b>amounts in thousands</b>      |             |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |             |
| <b>Current liabilities:</b>   |                                  |             |
| 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)  | 4,955,919                        | 41,700      |
| Deferred tax liabilities (note 11)  | 458,138                          | 135,811     |
| Other long-term liabilities   | 409,998                          | 7,948       |
| Total liabilities   | 7,245,147                        | 268,391     |
| <b>Commitments and contingencies (note 19)</b>  |                                  |             |
| Minority interests in subsidiaries  | 1,216,710                        | 78          |
| <b>Stockholders Equity:</b>   |                                  |             |
| 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   | (1,649,007)                      | (1,630,949) |
| Accumulated other comprehensive earnings (loss), net of taxes (note 18)   | 14,010                           | (46,566)    |

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|  |               |           |
|--|---------------|-----------|
| Treasury stock, at cost (note 12)          | (127,890)     |           |
| Parent's investment                        |               | 5,096,083 |
| Total stockholders' equity                 | 5,240,506     | 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      |
|--|--|----------|-----------|
|  | as restated<br>(note 23)                       |          |           |
|  | 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)   | (307,015)                                      | (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) | (35,775)                                       | 12,762   | (16,705)  |
| Foreign currency transaction gains (losses), net                               | 117,657  | 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     |
|  | 111,030  | 50,343   | (456,836) |
| Earnings (loss) before income taxes and minority interests                     | (202,843)                                      | 48,888   | (495,981) |
| Income tax benefit (expense)   | 17,449   | (27,975) | 166,121   |

|   |             |        |           |
|---|-------------|--------|-----------|
| Minority interests in losses (earnings) of subsidiaries       | 167,336     | (24)   | (27)      |
| Earnings (loss) before cumulative effect of accounting change | (18,058)    | 20,889 | (329,887) |
| Cumulative effect of accounting change, net of taxes (note 3) |             |        | (238,267) |
| Net earnings (loss)   | \$ (18,058) | 20,889 | (568,154) |
| Pro forma earnings (loss) per common share (note 3):          |             |        |           |
| Basic and diluted   | \$ (0.11)   | 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)**

|   | <b>Year ended December 31,</b>   |             |             |
|---|----------------------------------|-------------|-------------|
|   | <b>2004</b>                      | <b>2003</b> | <b>2002</b> |
|   | <b>as restated<br/>(note 23)</b> |             |             |
|   | <b>amounts in thousands</b>      |             |             |
| Net earnings (loss)   | \$ (18,058)                      | 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)   | \$ (8,464)                       | 234,777     | (695,220)   |

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

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

|   | Common stock | Additional  |             |                    | Accumulated | Accumulated<br>other<br>comprehensive<br>earnings<br>(loss),<br>net of<br>taxes | Treasury<br>stock, at<br>cost | Parent s<br>investment | Total<br>stockholders<br>equity |
|---|--------------|-------------|-------------|--------------------|-------------|---|-------------------------------|------------------------|---------------------------------|
|   | Series<br>A  | Series<br>B | Series<br>C | paid-in<br>capital | deficit     |   |                               |                        |                                 |
| <b>amounts in thousands</b>   |              |             |             |                    |             |   |                               |                        |                                 |
| Balance at<br>January 1, 2002   | \$           |             |             |                    | (1,083,684) | (133,388)   |                               | 3,256,665              | 2,039,593                       |
| Net loss  |              |             |             |                    | (568,154)   |   |                               |                        | (568,154)                       |
| Other<br>comprehensive<br>loss (note 18)                                |              |             |             |                    |             | (127,066)   |                               |                        | (127,066)                       |
| Reallocation of<br>enterprise-level<br>goodwill from<br>parent (note 3) |              |             |             |                    |             |   |                               | 118,000                | 118,000                         |
| Intercompany<br>tax allocation<br>(note 11)                             |              |             |             |                    |             |   |                               | 3,988                  | 3,988                           |
| Allocation of<br>corporate<br>overhead<br>(note 14)                     |              |             |             |                    |             |   |                               | 10,794                 | 10,794                          |
| Net cash<br>transfers from<br>parent                                    |              |             |             |                    |             |   |                               | 1,231,738              | 1,231,738                       |
| Balance at<br>December 31,<br>2002                                      |              |             |             |                    | (1,651,838) | (260,454)   |                               | 4,621,185              | 2,708,893                       |
| Net earnings  |              |             |             |                    | 20,889      |   |                               |                        | 20,889                          |
| Other<br>comprehensive<br>earnings<br>(note 18)                         |              |             |             |                    |             | 213,888   |                               |                        | 213,888                         |
| Intercompany<br>tax allocation<br>(note 11)                             |              |             |             |                    |             |   |                               | (14,774)               | (14,774)                        |
| Allocation of<br>corporate<br>overhead<br>(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 (as restated note 23)   | (18,058)    |          |           | (18,058)  |
| 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        | 6,049       |          | 1,025     | 7,074     |

|   |          |    |           |             |        |             |           |
|---|----------|----|-----------|-------------|--------|-------------|-----------|
| taxes (note 12)   |          |    |           |             |        |             |           |
| Net cash transfers from parent                                |          |    |           |             |        | 654,250     | 654,250   |
| 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 (as restated note 23)            | \$ 1,685 | 73 | 7,001,635 | (1,649,007) | 14,010 | (127,890)   | 5,240,506 |

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 CASH FLOWS**

|  | <b>Year ended December 31,</b>   |             |             |
|--|----------------------------------|-------------|-------------|
|  | <b>2004</b>                      | <b>2003</b> | <b>2002</b> |
|  | <b>as restated<br/>(note 23)</b> |             |             |
|  | <b>amounts in thousands</b>      |             |             |
| <b>Cash flows from operating activities:</b>   |                                  |             |             |
| Net earnings (loss)  | \$ (18,058)                      | 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 and non-cash interest                             | 40,218                           | 117         | 134         |
| Share of losses (earnings) of affiliates, net  | (38,710)                         | (13,739)    | 331,225     |
| Realized and unrealized losses (gains) on derivative instruments, net                      | 35,775                           | (12,762)    | 16,705      |
| Foreign currency transaction losses (gains), net   | (117,657)                        | (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  | (43,714)                         | (3,759)     | 287         |
| Deferred income tax expense (benefit)  | (84,149)                         | 42,278      | (169,606)   |
| Minority interests in (losses) earnings of subsidiaries                                    | (167,336)                        | 24          | 27          |
| Non-cash charges (credits) from Liberty Media Corporation                                  | 15,490                           | (3,901)     | 14,782      |
| Other noncash items  |                                  | (1,750)     | (7,069)     |
| Changes in operating assets and liabilities, net of the effects of acquisitions:           |                                  |             |             |
| Receivables, prepaids and other  | (50,358)                         | 9,653       | 12,064      |
| Payables and accruals  | 168,781                          | (1,728)     | (28,165)    |
| Net cash provided by operating activities  | \$ 746,240                       | 55,996      | 26,732      |
| <b>Cash flows from investing activities:</b>   |                                  |             |             |
| Cash paid for acquisitions, net of cash acquired   | \$ (508,836)                     |             |             |
| Cash paid for acquisition to be refunded by seller   | (52,128)                         |             |             |
| Investments in and loans to affiliates and others  | (256,959)                        | (494,193)   | (1,204,242) |
|  | 535,074                          |             |             |

|  |              |           |             |
|--|--------------|-----------|-------------|
| Proceeds received upon repayment of principal amounts loaned to affiliates |              |           |             |
| Proceeds received upon repayment of debt securities                        | 115,592      |           |             |
| Purchases of short-term liquid investments                                 | (293,734)    |           |             |
| Proceeds received from sale of short-term liquid investments               | 246,981      |           |             |
| Capital expended for property and equipment                                | (508,347)    | (22,869)  | (24,910)    |
| Net cash received (paid) to purchase or settle derivative instruments      | (158,949)    | 19,580    | (15,346)    |
| Proceeds received upon dispositions of investments                         | 315,792      | 8,230     |             |
| Deposits received in connection with pending asset sales                   | 80,264       |           |             |
| Change in restricted cash  | (27,298)     |           |             |
| Other investing activities, net  | (22,103)     | (16,042)  | 1,940       |
| Net cash used by investing activities                                      | \$ (534,651) | (505,294) | (1,242,558) |

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

|  | <b>Year ended December 31,</b>   |                |                  |
|--|----------------------------------|----------------|------------------|
|  | <b>2004</b>                      | <b>2003</b>    | <b>2002</b>      |
|  | <b>as restated<br/>(note 23)</b> |                |                  |
|  | <b>amounts in thousands</b>      |                |                  |
| <b>Cash flows from financing activities:</b>     |                                  |                |                  |
| Borrowings of debt                               | \$ 2,301,211                     | 41,700         |                  |
| Repayments of debt                               | (1,849,381)                      | (22,954)       | (12,784)         |
| Net proceeds received from rights offering       | 735,661                          |                |                  |
| Proceeds from issuance of stock by subsidiaries  | 488,437                          |                |                  |
| Change in cash collateral                        | 41,700                           | (41,700)       |                  |
| Contributions from Liberty Media Corporation     | 704,250                          | 478,799        | 1,231,738        |
| Treasury stock purchase                          | (127,890)                        |                |                  |
| Deferred financing costs                         | (65,951)                         |                |                  |
| Other financing activities, net                  | 12,351                           |                |                  |
| <b>Net cash provided by financing activities</b> | <b>2,240,388</b>                 | <b>455,845</b> | <b>1,218,954</b> |
| Effect of exchange rates on cash                 | 66,756                           | 614            | (2,238)          |
| <b>Net increase in cash and cash equivalents</b> | <b>2,518,733</b>                 | <b>7,161</b>   | <b>890</b>       |
| <b>Cash and cash equivalents:</b>                |                                  |                |                  |
| Beginning of period                              | 12,753                           | 5,592          | 4,702            |
| End of period                                    | \$ 2,531,486                     | 12,753         | 5,592            |
| <b>Cash paid for interest</b>                    | <b>\$ 280,815</b>                | <b>932</b>     | <b>18,603</b>    |
| <b>Net cash paid for taxes</b>                   | <b>\$ 4,264</b>                  | <b>4,651</b>   | <b>2,895</b>     |

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

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004, 2003 and 2002**

**(1) Basis of Presentation**

The accompanying consolidated financial statements of Liberty Media International, Inc. (LMI) include the historical financial information of (i) certain international cable television and programming subsidiaries and assets of Liberty Media Corporation (Liberty), which we collectively refer to as LMC International, for periods prior to the June 7, 2004 consummation of the spin off transaction described in note 2 and (ii) LMI and its consolidated subsidiaries for the period following such date. Upon consummation of the spin off, LMI became the owner of the assets that comprise LMC International. In the following text, we, our, our company and us may refer, as the context requires, LMC International (prior to June 7, 2004), LMI and its consolidated subsidiaries (on and subsequent to June 7, 2004) or both.

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

**Operating subsidiaries at December 31, 2004:**

UnitedGlobalCom, Inc. (UGC)

Liberty Cablevision of Puerto Rico Ltd. (Liberty Cablevision Puerto Rico)

Pramer S.C.A. (Pramer)

*UGC.* 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, we began consolidating UGC on January 1, 2004. Prior to that date, we used the equity method to account for our investment in UGC.

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, Inc. (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.

The proposed merger will be accounted for as a step acquisition by our company of the remaining minority interest in UGC. The purchase price in this step acquisition will include the consideration issued to UGC public stockholders to acquire the UGC interest not already owned by our company and the direct acquisition costs incurred by our company. As UGC was our consolidated subsidiary prior to the proposed mergers, the purchase price will first be applied to eliminate the minority interest in UGC from our consolidated balance sheet, and the remaining purchase price will be allocated on a pro rata basis to the identifiable assets and liabilities of UGC based upon their respective fair values at the effective date of the proposed merger and the 46.4% interest in UGC to be acquired by Liberty Global pursuant to the proposed mergers. Any excess purchase price that remains after amounts have been allocated to the net identifiable assets of UGC will be recorded as goodwill. As the acquiring company for accounting purposes, our company will be the predecessor to Liberty Global and our historical financial statements will become the historical financial statements of Liberty Global.



*Other.* 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 direct-to-home (DTH) satellite distributors in Latin America and Spain.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004, 2003 and 2002 (Continued)**

**Significant equity method investments at December 31, 2004:**

LMI/ Sumisho Super Media LLC (Super Media)

Jupiter Programming Co., Ltd. (JPC)

On December 28, 2004, our 45.45% ownership interest in Jupiter Telecommunications Co., Ltd. (J-COM), and a 19.78% interest in J-COM owned by Sumitomo Corporation 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 an approximate 65.23% controlling interest in J-COM at December 31, 2004. 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.

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.

For additional information concerning our equity affiliates, see note 6.

**(2) Spin Off Transaction and Rights Offering*****Spin Off Transaction***

On June 7, 2004 (the Spin Off Date), our common stock was distributed on a pro rata basis to Liberty's shareholders as a dividend in connection with a spin off transaction. In connection with the spin off, holders of Liberty common stock on June 1, 2004 (the Record Date) received in the aggregate 139,921,145 shares of LMI Series A common stock for their shares of Liberty Series A common stock owned on the Record Date and 6,053,173 shares of LMI Series B common stock for their shares of Liberty Series B common stock owned on the Record Date. The number of shares of LMI common stock distributed in the spin off was based on a ratio of .05 of a share of LMI common stock for each share of Liberty common stock. The spin off was intended to qualify as a tax-free spin off.

In addition to the contributed subsidiaries and net assets that comprise our company, Liberty also contributed certain other assets and liabilities to our company in connection with the spin off, as set forth in the following table (amounts in thousands):

|                               |                   |
|-------------------------------|-------------------|
| Cash and cash equivalents     | \$ 50,000         |
| Available-for-sale securities | 561,130           |
| Net deferred tax liability    | (253,163)         |
| Other net liabilities         | (2,407)           |
|                               | <b>\$ 355,560</b> |

The contributed available-for-sale securities included 5,000,000 American Depositary Shares (ADSs) for preferred limited voting ordinary shares of The News Corporation Limited (News Corp.) and a 99.9% economic interest in 345,000 shares of ABC Family Worldwide, Inc. (ABC Family) Series A preferred stock. Liberty also contributed a variable forward transaction with respect to the News Corp. ADSs. During the fourth quarter of 2004, the 5,000,000 News Corp. ADSs were converted into 10,000,000 shares of News Corp.'s Class A non-voting common stock (News Corp. Class A common stock) pursuant to News Corp.'s reincorporation from Australia to the United States. All of the following references to News Corp. shares herein give effect to such conversion. For financial reporting purposes, the contribution of the cash, available-for-sale securities, related deferred tax liability and other net liabilities is deemed to have occurred on June 1, 2004.

All of the net assets contributed to our company by Liberty in connection with the spin off have been recorded at Liberty's historical cost.

As a result of the spin off, we operate independently from Liberty, and neither we nor Liberty have any stock ownership, beneficial or otherwise, in the other. In connection with the spin off, we and Liberty entered into certain

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**LIBERTY MEDIA INTERNATIONAL, INC.**

(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004, 2003 and 2002 (Continued)**

agreements in order to govern certain of the ongoing relationships between Liberty and our company after the spin off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement and a Tax Sharing Agreement. In addition, Liberty and our company entered into a Short-Term Credit Facility that has since been terminated.

The Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the spin off, the issuance of LMI stock options upon adjustment of certain Liberty stock incentive awards and the allocation of responsibility for LMI and Liberty stock incentive awards, cross indemnities and other matters. Such cross indemnities are designed to make (i) our company responsible for all liabilities related to the businesses of our company prior to the spin off, as well as for all liabilities incurred by our company following the spin off, and (ii) Liberty responsible for all of our potential liabilities that are not related to our businesses, including, for example, liabilities arising as a result of our company having been a subsidiary of Liberty.

The Facilities and Services Agreement and the Short-Term Credit Facility, are described in note 14, and the Tax Sharing Agreement is described in note 11.

***Rights Offering***

On July 26, 2004, we commenced a rights offering (the LMI Rights Offering) whereby holders of record of LMI common stock on that date received 0.20 transferable subscription rights for each share of LMI common stock held. Each whole right to purchase LMI Series A common stock entitled the holder to purchase one share of LMI Series A common stock at a subscription price of \$25.00 per share. Each whole right to purchase LMI Series B common stock entitled the holder to purchase one share of LMI Series B common stock at a subscription price of \$27.50 per share. Each whole Series A and Series B right entitled the holder to subscribe, at the same applicable subscription price pursuant to an oversubscription privilege, for additional shares of the applicable series of LMI common stock, subject to proration. The LMI Rights Offering expired in accordance with its terms on August 23, 2004. Pursuant to the terms of the LMI Rights Offering, we issued 28,245,000 shares of LMI Series A common stock 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.

As a result of the LMI Rights Offering, the exercise price for LMI stock options outstanding at the time of the LMI Rights Offering was reduced by multiplying the exercise price by 94%, and the number of options outstanding was increased by dividing the number of the then outstanding LMI stock options by 94%. Unless otherwise noted, all references herein to the number of outstanding LMI stock options and the related exercise prices reflect these modified terms.

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

***Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values of financial instruments, fair values of long-lived assets and any related impairments, capitalization of construction and installation costs, useful lives of property and equipment, restructuring accruals and other special items. Actual results could differ from those estimates.

We do not control the decision making process or business management practices of our equity affiliates. Accordingly, we rely on management of these affiliates and their independent auditors to provide us with accurate financial information prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) that we use in the application of the equity method. We are not aware, however, of any errors in or possible misstatements

of the financial information provided by our equity affiliates that would have a material effect on our financial statements. For information concerning our equity method investments, see note 6.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004, 2003 and 2002 (Continued)**

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation.

***Principles of Consolidation***

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

***Cash and Cash Equivalents, Restricted Cash and Short-Term Liquid Investments***

Cash equivalents consist of all investments that are readily convertible into cash and have maturities of three months or less at the time of acquisition. Restricted cash includes cash held in escrow and cash held as collateral for lines of credit and other compensating balances. Cash restricted to a specific use is classified based on the expected timing of such disbursement. Short-term liquid investments include marketable equity securities, certificates of deposit, commercial paper, corporate bonds and government securities that have original maturities greater than three months but less than twelve months.

***Receivables***

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated \$61,390,000 and \$13,947,000 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon our assessment of probable loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions and specific customer credit risk. Generally, upon disconnection of a subscriber, the account is fully reserved. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers and their dispersion across many different countries worldwide. We also manage this risk by disconnecting services to customers who are delinquent.

***Investments***

All debt and marketable equity securities held by our company are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses on securities that are classified as available-for-sale are carried net of taxes as a component of accumulated other comprehensive earnings (loss) in stockholders' equity. Realized gains and losses generally are determined on an average cost basis. Other investments in which our ownership interest is less than 20% and that are not considered marketable securities are carried at cost. Securities transactions are recorded on the trade date.

For those investments in affiliates in which we have the ability to exercise significant influence, the equity method of accounting is used. Generally, we exercise significant influence through a voting interest between 20% and 50% and/or board representation and management authority. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, and advances and commitments to, the investee. If our investment in the common stock of an affiliate is reduced to zero as a result of the prior recognition of the affiliate's net losses, and we hold investments in other more senior securities of the affiliate, we would continue to record losses from the affiliate to the extent of these additional investments. The amount of additional losses recorded would be determined based on changes in the hypothetical amount of proceeds that would be received by us if the affiliate were to experience a liquidation of its assets at their current book values. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (Statement 142), the portion of the difference between our investment and our share of the net assets of the investee that represents goodwill (equity method goodwill) is no longer amortized, but continues to be considered for impairment under Accounting

Principles

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**LIBERTY MEDIA INTERNATIONAL, INC.**

(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004, 2003 and 2002 (Continued)**

Board Opinion No. 18. Our share of net earnings or losses of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

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

We continually review our investments to determine whether a decline in fair value below the cost basis is other-than-temporary. The primary factors we consider in our determination are the length of time that the fair value of the investment is below our company's carrying value and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, 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. Writedowns for cost investments and available-for-sale securities are included in the consolidated statements of operations as other-than-temporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

***Financial Instruments***

At December 31, 2004 and 2003, the fair value and the carrying value of our debt were approximately equal. The carrying value of cash and cash equivalents, restricted cash, short-term liquid investments, receivables, trade and other receivables, other current assets, accounts payable, accrued liabilities, subscriber advance payments and deposits and other current liabilities approximate fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices, to the extent available, at the reporting date.

***Derivative Instruments***

We have entered into free-standing derivative instrument contracts such as total return bond swaps, variable forward transactions and foreign currency derivative instruments. In addition, we have entered into other contracts, such as the UGC Convertible Notes discussed in note 10, that contain embedded derivative financial instruments. All derivatives are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings. None of the derivative instruments that were in effect during the three years ended December 31, 2004 were designated as hedges.

***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation. In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies*, 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. Interest capitalized with respect to construction activities was not material during 2004, 2003 and 2002.



Depreciation is computed using the straight-line method over estimated useful lives of 2 to 25 years for cable distribution systems, 20 to 40 years for buildings and 3 to 15 years for support equipment. The useful lives used to

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**LIBERTY MEDIA INTERNATIONAL, INC.**

(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004, 2003 and 2002 (Continued)**

depreciate cable distribution systems that are undergoing a rebuild are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed.

When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved of the applicable amounts and any difference is included in depreciation expense. The impact of such retirements and disposals was not material during 2004, 2003 and 2002.

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

***Intangible Assets***

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

Pursuant to Statement 142, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also provides that equity method goodwill is not amortized, but will continue to be considered for impairment under Accounting Principles Board Opinion No. 18. Pursuant to Statement 142, intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144).

We do not amortize our franchise rights and certain trade name intangible assets as we have concluded that these assets are indefinite-lived assets. Our customer relationship intangible assets are amortized on a straight line basis over estimated useful lives ranging from 4 to 10 years.

Effective January 1, 2002, we adopted Statement 142. Statement 142 required us to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, we identified our reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires us to consider equity method affiliates as separate reporting units. As a result, a portion of Liberty's enterprise-level goodwill balance was allocated to our reporting units, including several reporting units whose only asset was a single equity method investment. For example, a portion of Liberty's enterprise level goodwill was allocated to a separate reporting unit which included only our investment in J-COM. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

After we had allocated enterprise level goodwill to our reporting units, we determined the fair value of our reporting units using independent appraisals, public trading prices and other means. We then compared the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeded its fair value, we performed the second step of the transitional impairment test. In the second step, we compared the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation, to its carrying amount, both of which were measured as of the date of adoption.

In situations where the implied fair value of a reporting unit's goodwill was less than its carrying value, we recorded a transitional impairment charge. As a result, during 2002, we recognized a \$238,267,000 transitional impairment loss, after deducting taxes of \$103,105,000, as the cumulative effect of a change in accounting principle. The foregoing

transitional impairment loss included a pre-tax adjustment of \$264,372,000, representing our proportionate share of transition adjustments recorded by UGC.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
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***Impairment of 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.

***Income Taxes***

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

***Foreign Currency Translation***

The functional currency of our company is the U.S. dollar. The functional currency of our foreign operations generally is the applicable local currency for each foreign subsidiary and equity method investee. Assets and liabilities of foreign subsidiaries and equity investees are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations and our company's share of the results of operations of its equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings (loss) in the consolidated statement of stockholders' equity. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. The effect of exchange rates on cash balances held in foreign currencies are reported as a separate line item below cash flows from financing activities.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the statements of operations as unrealized (based on the applicable period end translation) or realized upon settlement of the transactions.

Unless otherwise indicated, convenience translations into U.S. dollars are calculated as of December 31, 2004.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**Revenue Recognition**

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

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

*Promotional Discounts.* For subscriber promotions, such as discounted or free services during an introductory period, revenue is recorded at the monthly rate, if any, charged to the subscriber.

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

**Earnings (Loss) per Common Share**

Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share presents the dilutive effect on a per share basis of potential common shares (e.g. options and convertible securities) as if they had been converted at the beginning of the periods presented.

As described in note 2, we issued shares of LMI Series A common stock and LMI Series B common stock in connection with the spin off. The pro forma net earnings (loss) per share amounts set forth in the accompanying consolidated statements of operations were computed assuming that the shares issued in the spin off were issued and 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 our stockholders pursuant to the LMI Rights Offering, have been increased by 6,866,484 to give effect to the benefit derived by our stockholders as a result of the distribution of such subscription rights. The details of the calculations of our weighted average common shares outstanding are set forth in the following table:

|  | <b>Year ended December 31,</b> |             |
|--|--------------------------------|-------------|
|  | <b>2004</b>                    | <b>2003</b> |
| <b>Basic and diluted:</b>                                    |                                |             |
| Weighted average common shares outstanding before adjustment | 158,597,222                    | 145,974,318 |
| Adjustment for July 2004 LMI Rights Offering                 | 3,883,504                      | 6,866,484   |
| Weighted average common shares, as adjusted                  | 162,480,726                    | 152,840,802 |

\* The weighted average share amounts for all periods assume that the shares of LMI common stock issued in connection with the spin off were issued and outstanding since January 1, 2003.

At December 31, 2004, 4,768,254 potential common shares were outstanding. All of such potential common shares represent shares issuable upon the exercise of stock options that were issued in June 2004 and adjusted in connection with the LMI Rights Offering. Potential common shares have been excluded from the pro forma calculation of diluted earnings per share in 2004 because their inclusion would be anti-dilutive. Prior to the consummation of the spin off, no potential common shares were outstanding, and accordingly, there is no difference between basic and diluted earnings per share in 2003.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
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***Stock Based Compensation***

As a result of the spin off and related adjustments to Liberty's stock incentive awards, options to acquire an aggregate of 1,595,709 shares of LMI Series A common stock and 1,498,154 shares of LMI Series B common stock were issued to our and Liberty's employees. Consistent with Liberty's accounting for the adjusted Liberty stock options and stock appreciation rights prior to the Spin Off Date, we use variable-plan accounting to account for all LMI stock options issued as adjustments of Liberty's stock incentive awards in connection with the spin off.

In addition, options to acquire an aggregate of 453,206 shares of LMI Series A common stock and 1,568,562 shares of LMI Series B common stock were issued to LMI employees and directors in June 2004. Prior to the LMI Rights Offering, we used fixed-plan accounting to account for these LMI stock options. As a result of the modification of certain terms of the LMI stock options that were outstanding at the time of the LMI Rights Offering, we began accounting for these LMI options as variable-plan options. In addition, options to acquire an aggregate 7,000 shares of LMI Series A common stock were issued to LMI employees and directors subsequent to the LMI Rights Offering. These options were granted at fair market value and, as such, are accounted for using fixed-plan accounting.

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

We account for our fixed and variable stock-based compensation plans using the intrinsic value method. Generally, under the intrinsic value method, (i) compensation expense for fixed-plan stock options is recognized only if the estimated fair value of the underlying stock exceeds the exercise price on the date of grant, in which case, compensation is recognized based on the percentage of options that are vested until the options are exercised, expire or are cancelled, and (ii) compensation for variable-plan options is recognized based upon the percentage of the options that are vested and the difference between the estimated fair value of the underlying common stock and the exercise price of the options at the balance sheet date, until the options are exercised, expire or are cancelled. We record stock-based compensation expense for our stock appreciation rights (SARs) using the accelerated expense attribution method. We record compensation expense for restricted stock awards based on the quoted market price of our stock at the date of grant and the vesting period.

As a result of the modification of certain terms of its stock options in connection with its February 2004 rights offering, UGC began accounting for its stock options that it granted prior to February 2004 as variable plan options. UGC stock options granted subsequent to February 2004 are accounted for as fixed-plan options. Most of the stock-based compensation included in our consolidated statements of operations in 2004 is attributable to UGC's stock incentive awards.

The following table illustrates the effect on net earnings (loss) and earnings (loss) per share as if we had applied the fair value recognition provisions of SFAS 123, *Accounting for Stock-Based Compensation*, (Statement 123) to our outstanding options. As the accounting for the liability-based SARs is the same under the intrinsic value method and

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the fair value method, the pro forma adjustments included in the following table do not include amounts related to our calculation of compensation expense related to SARs or to options with tandem SARs:

|   | <b>Year ended December 31,</b>                            |             |             |
|---|---|-------------|-------------|
|   | <b>2004</b>   | <b>2003</b> | <b>2002</b> |
|   | <b>as restated<br/>(note 23)</b>                          |             |             |
|   | <b>amounts in thousands,<br/>except per share amounts</b> |             |             |
| Net earnings (loss)   | \$ (18,058)   | 20,889      | (568,154)   |
| Add stock-based compensation charges as determined under the intrinsic value method, net of taxes | 51,524  |             |             |
| Deduct stock compensation charges as determined under the fair value method, net of taxes         | (29,904)  | (832)       | (1,498)     |
| Pro forma net earnings (loss)   | \$ 3,562  | 20,057      | (569,652)   |
| Basic and diluted earnings (loss) from continuing operations per share:                           |   |             |             |
| As reported   | \$ (0.11)   | 0.14        |             |
| Pro forma   | \$ 0.02   | 0.13        |             |

**(4) Recent Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (Statement No. 123(R)), which is a revision of Statement 123, as amended by Statement No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure and Amendment of Statement No. 123* (Statement 148). Statement No. 123(R) supersedes Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* (APB 25) and amends certain provisions of Statement No. 95, *Statement of Cash Flows*. Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, Statement No. 123(R) will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to operations over the remaining vesting period. We are required to adopt Statement No. 123(R) in our third quarter of 2005, beginning July 1, 2005. Under Statement No. 123(R), we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include prospective and retroactive adoption methods. Under the retroactive methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of Statement No. 123(R), while the retroactive methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated.

We are evaluating the requirements of Statement No. 123(R) and we expect that the adoption of Statement No. 123(R) will have a material impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption for Statement No. 123(R).

(5) **Acquisitions**

*Acquisition of Controlling Interest in UGC*

On January 5, 2004, we completed a transaction pursuant to which UGC's founding shareholders (the Founders) transferred 8.2 million shares of UGC Class B common stock to our company in exchange for 12.6 million shares of Liberty 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 (the UGC Founders Transaction). The UGC Founders Transaction was the last of a number of independent transactions that occurred from 2001 through

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(See note 1)

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January 2004 pursuant to which we acquired our controlling interest in UGC. For information concerning our transactions with UGC during 2003 and 2002, see note 6.

Our acquisition of 281.3 million shares of UGC common stock in January 2002 gave us a greater than 50% economic interest in UGC, but due to certain voting and standstill arrangements, we used the equity method to account for our investment in UGC through December 31, 2003. Upon closing of the January 5, 2004 transaction, the restrictions on the exercise by us of our voting power with respect to UGC terminated, and we gained voting control of UGC.

Accordingly, UGC has been accounted for as a consolidated subsidiary and included in our financial position and results of operations since January 1, 2004. We have accounted for our acquisition of UGC as a step acquisition, and have allocated our investment basis to our pro rata share of UGC's assets and liabilities at each significant acquisition date based on the estimated fair values of such assets and liabilities on such dates. Prior to the acquisition of the Founders' shares, our investment basis in UGC had been reduced to zero as a result of the prior recognition of our share of UGC's losses. The following table reflects the amounts allocated to our assets and liabilities upon completion of the January 2004 acquisition of the Founders' shares (amounts in thousands):

|   |    |             |
|---|----|-------------|
| Cash  | \$ | 310,361     |
| Other current assets  |    | 298,826     |
| Property and equipment  |    | 3,386,252   |
| Goodwill  |    | 2,023,374   |
| Customer relationships(1)   |    | 379,093     |
| Trade names   |    | 62,441      |
| Other intangible assets   |    | 4,532       |
| Investments and other assets                                      |    | 347,542     |
| Current liabilities   |    | (1,407,275) |
| Long-term debt  |    | (3,615,902) |
| Deferred income taxes   |    | (754,111)   |
| Other liabilities   |    | (259,492)   |
| Minority interest   |    | (607,692)   |
| Aggregate purchase price  |    | 167,949     |
| Issuance of Liberty common stock                                  |    | (152,122)   |
| Aggregate cash consideration (including direct acquisition costs) | \$ | 15,827      |

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

We have entered into a new Standstill Agreement with UGC that limits our ownership of UGC common stock to 90% of the outstanding common stock unless we make an offer or effect another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with us. Subsequent to December 31, 2004, we and UGC entered into a merger agreement whereby a newly-formed holding company will acquire all of the capital stock of our company and all of the capital stock of UGC not owned by our company. For additional information, see note 1.

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,

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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.

**PHL**

On May 20, 2004, we acquired all of the issued and outstanding ordinary shares of Princes Holdings Limited (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. This loan bears interest at 1.75% per annum. 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.

We have accounted for this acquisition using the purchase method of accounting. For financial reporting purposes, the PHL acquisition is deemed to have occurred on June 1, 2004. The purchase price allocation for this acquisition is as follows (amounts in thousands):

|   |                 |
|---|-----------------|
| Cash and cash equivalents   | \$ 14,473       |
| Other current assets  | 7,423           |
| Property and equipment  | 75,172          |
| Customer relationships(1)   | 10,239          |
| Goodwill  | 24,023          |
| Current liabilities   | (26,078)        |
| Subscriber advance payments and deposits                          | (12,851)        |
| Debt  | (89,483)        |
| <b>Aggregate cash consideration (including acquisition costs)</b> | <b>\$ 2,918</b> |

(1) The estimated weighted-average amortization period at acquisition for the intangible asset associated with customer relationships was 4 years.

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. Under reorganization accounting, UGC consolidated the financial position and results of operations of PHL using LMI's historical cost, as if this transaction had been consummated by UGC as of May 20, 2004 (June 1, 2004 for financial reporting purposes), the date of the original acquisition of PHL by our company. As UGC was a consolidated subsidiary of LMI at the time of this transaction, the shares of UGC Class A common stock received by LMI were eliminated in consolidation.

**Noos**

On July 1, 2004, UPC Broadband France SAS (UPC Broadband France), an indirect subsidiary of UGC and the owner of UGC's French broadband video and Internet access operations, acquired Suez-Lyonnaise Télécom SA (Noos), from

Suez SA (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

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completed its purchase price review with Suez, which resulted in a 42,844,000 (\$52,128,000) reduction in the purchase price. The receivable that resulted from this purchase price reduction is included in other receivables in our consolidated balance sheet. 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).

UGC accounted for this transaction as the acquisition of an 80.1% interest in Noos and the sale of a 19.9% interest in UPC Broadband France. Under the purchase method of accounting, the preliminary purchase price was allocated to the acquired identifiable tangible and intangible assets and liabilities based upon their respective fair values. UGC recorded a loss of approximately 9,679,000 (\$11,776,000) associated with the dilution of its ownership interest in UPC Broadband France as a result of the Noos transaction. Our \$6,102,000 share of this loss is reflected as a reduction of additional paid-in capital in our consolidated statement of stockholders' equity.

The following table presents the purchase price allocation for UGC's acquisition of an 80.1% interest in Noos, together with the effects of the sale of a 19.9% interest in UGC's historical French operations (amounts in thousands):

|                                 |              |
|---------------------------------|--------------|
| Working capital                 | \$ (106,744) |
| Property, plant and equipment   | 769,852      |
| Intangible assets(1)            | 11,815       |
| Other long-term assets          | 4,066        |
| Other long-term liabilities     | (7,099)      |
| Minority interest               | (91,033)     |
| Equity in UPC Broadband France  | 11,776       |
| <br>                            |              |
| Cash consideration for Noos     | 592,633      |
| Less cash acquired              | (18,791)     |
| <br>                            |              |
| Net cash consideration for Noos | \$ 573,842   |

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

The allocation above was made based on UGC's assessment of the fair value of the assets and liabilities of Noos. As of December 31, 2004, this assessment had not been finalized, but UGC does not expect further significant purchase accounting adjustments. Minority interest was computed based on 19.9% of the fair value of our historical French operations and 19.9% of the historical carrying amount of Noos.

Suez 19.9% interest in UPC Broadband France consists of 85,000,000 shares of Class B common stock of UPC Broadband France (the Class B Shares). Subject to the terms of a call option agreement, UPC France Holding BV (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.

***Pro Forma Information***

The following unaudited pro forma condensed consolidated operating results give effect to the UGC, PHL and Noos transactions as if they had been completed as of January 1, 2004 (for 2004 results) and as of January 1, 2003 (for 2003 results). These pro forma amounts are not necessarily indicative of operating results that would have occurred if the

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UGC, PHL and Noos acquisitions had occurred on such dates. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable:

|                | <b>Years ended December 31,</b>                           |             |
|----------------|---|-------------|
|                | <b>2004</b>   | <b>2003</b> |
|                | <b>as restated<br/>(note 23)</b>                          |             |
|                | <b>amounts in thousands,<br/>except per share amounts</b> |             |
| Revenue        | \$ 2,877,159  | 2,429,548   |
| Net loss       | \$ (30,458)   | (690,869)   |
| Loss per share | \$ (0.19)   | (4.52)      |

**(6) Investments in Affiliates Accounted for Using the Equity Method**

Our affiliates generally are engaged in the cable and/or programming businesses in various foreign countries. The following table includes our company's carrying value and approximate percentage ownership of our more significant investments in affiliates:

|  | <b>December 31, 2004</b>                                |                            | <b>December 31,<br/>2003</b> |
|--|---|----------------------------|------------------------------|
|  | <b>Percentage<br/>Ownership</b>                         | <b>Carrying<br/>Amount</b> | <b>Carrying<br/>Amount</b>   |
|  | <b>amounts in thousands,<br/>except percent amounts</b> |                            |                              |
| Super Media/ J-COM                       | 70%   | \$ 1,052,468               | 1,330,602                    |
| JPC                                      | 50%   | 290,224                    | 259,571                      |
| Telenet Group Holdings N.V. (Telenet)    | 19%   | 232,649                    |                              |
| Mediatti Communications, Inc. (Mediatti) | 37%   | 58,586                     |                              |
| Metrópolis-Intercom S.A. (Metrópolis),   | 50%   | 57,344                     | 52,223                       |
| Other                                    | Various   | 174,371                    | 98,156                       |
|  |   | \$ 1,865,642               | 1,740,552                    |

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

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2004</b>                    | <b>2003</b> | <b>2002</b> |

|                    | <b>amounts in thousands</b> |          |           |
|--------------------|-----------------------------|----------|-----------|
| Super Media/ J-COM | \$ 45,092                   | 20,341   | (21,595)  |
| JPC                | 14,644                      | 11,775   | 5,801     |
| Mediatti           | (2,331)                     |          |           |
| Metrópolis         | (8,355)                     | (8,291)  | (80,394)  |
| UGC                |                             |          | (190,216) |
| Other              | (10,340)                    | (10,086) | (44,821)  |
|                    | \$ 38,710                   | 13,739   | (331,225) |

Our share of earnings (losses) of affiliates includes losses related to other-than-temporary declines in the value of our equity method investments of \$25,973,000, \$12,616,000, and \$72,030,000 during 2004, 2003 and 2002, respectively. Substantially all of such losses relate to our affiliates that operate in Latin America.

At December 31, 2004 and 2003, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates' net assets by \$757,235,000 and \$690,332,000, respectively. Any calculated excess costs on investments are allocated on an estimated fair value basis to the underlying assets and liabilities of the

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investee. Amounts associated with assets other than goodwill and indefinite lived intangible assets are amortized over their estimated useful lives.

***Super Media/ J-COM***

J-COM was incorporated in 1995 to own and operate broadband businesses in Japan. The functional currency of J-COM is the Japanese yen. On December 28, 2004, our 45.45% ownership interest in J-COM, and a 19.78% interest in J-COM owned by Sumitomo Corporation (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. At December 31, 2004, Sumitomo also held a 12.25% direct interest in J-COM and Microsoft Corporation (Microsoft) held a 19.46% beneficial interest in J-COM. 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. 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.

Due to certain veto rights held by Sumitomo, we accounted for our 69.68% ownership interest in Super Media using the equity method of accounting at December 31, 2004. 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 became effective upon this announcement. Super Media is managed by a management committee consisting of two members, one appointed by us and one appointed by Sumitomo. From and after February 18, 2005, the management committee member appointed by us has a casting or deciding vote with respect to any management committee decision that we and Sumitomo are unable to agree on, with the exception of the terms of the initial public offering of J-COM. Certain decisions with respect to Super Media will continue to require the consent of both members rather than the management committee. These include any decision to 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.

As a result of the above-described change in the governance of Super Media, we will begin accounting for Super Media and J-COM as consolidated subsidiaries effective 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 interests in J-COM will be diluted to approximately 52.84%.

Super Media will be dissolved in February 2010 unless we and Sumitomo mutually agree to extend the term. Super Media may also be earlier dissolved under specified circumstances.

On August 6, 2004, J-COM used cash proceeds received pursuant to capital contributions from our company, Sumitomo and Microsoft to repay shareholder loans with an aggregate principal amount of ¥30,000 million (\$275,660,000 at August 6, 2004). Such amount includes ¥14,065 million (\$129,237,000 at August 6, 2004) of shareholder loans held by us that were effectively converted to equity in these transactions. Such transactions did not materially impact the J-COM ownership interests of our company, Sumitomo or Microsoft.

On December 21, 2004, we received cash proceeds of ¥42,755 million (\$410,080,000 at December 21, 2004) in repayment of all principal and interest due to our company from J-COM pursuant to then outstanding shareholder loans. In connection with this transaction, we recognized in our statement of operations foreign currency translation gains of \$55,350,000 that previously had been reflected in accumulated other comprehensive earnings and deferred taxes.

On February 25, 2005, J-COM acquired the respective interests of Sumitomo, Microsoft and our company in Chofu Cable, Inc. (Chofu Cable), a Japanese broadband communications provider, for cash consideration of ¥2,884 million (\$27,358,000 at February 25, 2005), of which ¥972 million (\$9,223,000 at February 25, 2005) was paid to our

company for our equity method investment in Chofu Cable. As a result of this acquisition, J-COM owns an approximate 92% equity interest in Chofu Cable.

In 2003, we purchased an 8% equity interest in J-COM from Sumitomo for \$141,000,000 in cash, and we and Sumitomo each converted certain shareholder loans to equity interests in J-COM.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
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**December 31, 2004, 2003 and 2002 (Continued)**

Summarized financial information for J-COM is as follows:

|                                     | <b>December 31,</b>         |                  |
|-------------------------------------|-----------------------------|------------------|
|                                     | <b>2004</b>                 | <b>2003</b>      |
|                                     | <b>amounts in thousands</b> |                  |
| <b>Financial Position</b>           |                             |                  |
| Investments                         | \$ 65,178                   | 52,962           |
| Property and equipment, net         | 2,441,196                   | 2,274,632        |
| Intangible and other assets, net    | 1,783,162                   | 1,601,596        |
| <b>Total assets</b>                 | <b>\$ 4,289,536</b>         | <b>3,929,190</b> |
| Debt                                | \$ 2,260,805                | 2,378,698        |
| Other liabilities                   | 677,595                     | 649,229          |
| Owners equity                       | 1,351,136                   | 901,263          |
| <b>Total liabilities and equity</b> | <b>\$ 4,289,536</b>         | <b>3,929,190</b> |

|   | <b>Year ended December 31,</b> |                |                 |
|---|--------------------------------|----------------|-----------------|
|   | <b>2004</b>                    | <b>2003</b>    | <b>2002</b>     |
|   | <b>amounts in thousands</b>    |                |                 |
| <b>Results of Operations</b>                            |                                |                |                 |
| Revenue   | \$ 1,504,709                   | 1,233,492      | 930,736         |
| Operating, selling, general and administrative expenses | (915,112)                      | (805,174)      | (719,590)       |
| Stock-based compensation                                | (783)                          | (840)          | (494)           |
| Depreciation and amortization                           | (378,868)                      | (313,725)      | (240,042)       |
| <b>Operating income (loss)</b>                          | <b>209,946</b>                 | <b>113,753</b> | <b>(29,390)</b> |
| Interest expense, net                                   | (94,958)                       | (68,980)       | (33,381)        |
| Other, net  | (15,532)                       | 1,335          | 2,579           |
| <b>Net earnings (loss)</b>                              | <b>\$ 99,456</b>               | <b>46,108</b>  | <b>(60,192)</b> |

**JPC**

JPC, a 50% joint venture formed in 1996 by our company and Sumitomo, is a programming company in Japan, which owns and invests in a variety of channels including *Shop Channel*. The functional currency of JPC is the Japanese yen. At December 31, 2004, our investment in JPC included ¥500 million (\$4,882,000) of shareholder loans to JPC. Such loans are denominated in Japanese yen and bear interest at variable rates (1.55% at December 31, 2004). Such

shareholder loans are due and payable on July 26, 2008.

On April 22, 2004, JPC issued 24,000 shares of JPC ordinary shares to Sumitomo for ¥6 billion (\$54,260,000 as of April 22, 2004). On April 26, 2004, JPC paid ¥3 billion (\$27,677,000 as of April 26, 2004) to each of our company and Sumitomo to redeem 12,000 shares of JPC ordinary shares from each shareholder. On April 27, 2004, we transferred our 100% indirect ownership interest in Liberty J-Sports, Inc. (Liberty J-Sports), the owner of an indirect minority interest in J-SPORTS Broadcasting Corporation, to JPC in exchange for 24,000 ordinary shares of JPC valued at ¥6 billion (\$54,805,000 as of April 27, 2004). We recognized a \$25,256,000 gain on this transaction, representing the excess of the cash received from the earlier share redemption over 50% of our historical cost basis in Liberty J-Sports.

***Telenet***

On December 16, 2004, chellomedia Belgium I BV and chellomedia Belgium II BV, UGC's indirect wholly owned subsidiaries (collectively, chellomedia Belgium), acquired our wholly owned subsidiary Belgian Cable Holdings (BCH) for \$121,068,000 in cash. BCH's only assets were debt securities of Callahan Partners Europe (CPE) and one

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

of two entities majority-owned by CPE (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, LLC (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 Group Holding NV (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. Telenet is a cable system operator in Belgium.

The restructuring was accounted for as a fair value transaction, in which BCH effectively transferred its debt securities and approximately \$22,358,000 in return for an equity interest in Belgian Cable Investors. As this was a transaction consummated at fair value, we recognized the \$10,517,000 unrealized gain associated with the CPE and InvestCo debt securities as a realized gain in our consolidated statement of operations. We have determined that the InvestCos are variable interest entities, in which Belgian Cable Investors is the primary beneficiary. Certain of the securities of the InvestCos held by the InvestCos shareholders have a mandatory redemption feature, and accordingly, we have classified such securities attributable to the other shareholders of the InvestCos as debt. See note 10. In our preliminary allocation of the purchase price, we have allocated \$232,649,000 to the investment in Telenet and the call options to purchase additional shares of Telenet, and have allocated \$87,821,000 to the InvestCos securities that we have classified as debt, based on our preliminary assessment of fair values. We expect our purchase price allocation to be finalized during the first quarter of 2005. For financial reporting purposes, the restructuring transaction was deemed to have occurred on December 31, 2004.

Pursuant to the Telenet shareholders agreement, the InvestCos are able to vote a 25% interest plus one vote on certain Telenet matters that require a 75% vote to pass. In addition, through its interest in the InvestCos, UGC has two representatives on Telenet's board of directors. Based on the InvestCos voting ability, board membership and ability to acquire significantly more direct ownership of Telenet through the call options, UGC believes that the InvestCos exercise significant influence over Telenet. Therefore, we account for our indirect investment in Telenet using the equity method of accounting.

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 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.

***Mediatti***

During 2004, we completed three transactions that resulted in our acquisition of 21,572 Mediatti shares for an aggregate cash purchase price of ¥6,257 million (\$59,129,000). Mediatti is a provider of cable television and high speed Internet access services in Japan. Our interest in Mediatti is held through Liberty Japan MC, LLC, (Liberty Japan MC) a company of which we own approximately 93.1% and Sumitomo 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 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004, 2003 and 2002 (Continued)**

Liberty Japan MC, Olympus Mediacom L.P. (Olympus Mediacom) 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 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.

***Metrópolis***

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 GlobalCom S.A. (VTR)*, a wholly owned subsidiary of *UGC* that owns *UGC's* Chilean operations. 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 (the amount of which is subject to negotiation) from the combined entity, 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 *Metrópolis's* 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.

Due to increased competition, losses in subscribers and a decrease in operating income in 2002, we determined that the carrying value of our investment in *Metrópolis* including allocated enterprise-level goodwill, exceeded the estimated fair value of this investment, which fair value was based on a per-subscriber valuation. Accordingly, we recorded an other-than-temporary decline in value of \$66,555,000, which is included in share of losses of affiliates in 2002, and an impairment of long-lived assets of \$39,000,000 related to the allocated enterprise-level goodwill for

Metrópolis.

***UGC***

On January 30, 2002, our company and UGC completed a transaction (the 2002 UGC Transaction) pursuant to which UGC was formed to own Old UGC, Inc. (Old UGC) (formerly known as UGC Holdings, Inc.). 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 (i) cash consideration of \$200,000,000, (ii) a note receivable from Belmarken

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

Holding B.V., (Belmarken) an indirect subsidiary of Old UGC, with an accreted value of \$891,671,000 and a carrying value of \$495,603,000 (the Belmarken Loan) and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V. (UPC), a subsidiary of Old UGC, with an aggregate carrying amount of \$270,398,000 to UGC in exchange for 281.3 million shares of UGC Class C common stock with a fair value of \$1,406,441,000. 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, our company limited the amount of gain it recognized to the minority shareholders' attributable share (approximately 28%) of such assets or \$122,618,000 (before deferred tax expense of \$47,821,000).

Also on January 30, 2002, UGC acquired from our company our debt and equity interests in IDT United, Inc. and \$751 million principal amount at maturity of UGC's \$1,375 million 104% senior secured discount notes due 2008 (2008 Notes), which had been distributed to us in redemption of a portion of our interest in IDT United and repayment of a portion of IDT United's debt to our company. IDT United was formed as an indirect subsidiary of IDT Corporation for purposes of effecting a tender offer for all outstanding 2008 Notes at a purchase price of \$400 per \$1,000 principal amount at maturity, which tender offer expired on February 1, 2002. The aggregate purchase price for our interest in IDT United of \$448 million equaled the aggregate amount we had invested in IDT United, plus interest. Approximately \$305 million of the purchase price was paid by the assumption by UGC of debt owed by our company to a subsidiary of Old UGC, and the remainder was credited against our company's \$200 million cash contribution to UGC described above. In connection with the 2002 UGC Transaction, a subsidiary of our company made loans to a subsidiary of UGC aggregating \$103 million. Such loans accrued interest at 8% per annum.

At December 31, 2003, we owned approximately 296 million shares of UGC common stock, or an approximate 50% economic interest and an 87% voting interest in UGC. Pursuant to certain voting and standstill arrangements, we were unable to exercise control of UGC, and accordingly, we used the equity method of accounting for our investment through December 31, 2003.

Because we had no commitment to make additional capital contributions to UGC, we suspended recording our share of UGC's losses when the carrying value of our investment in UGC was reduced to zero in 2002.

On September 3, 2003, UPC completed a restructuring of its debt instruments and emerged from bankruptcy. Under the terms of the restructuring, approximately \$5.4 billion of UPC's debt was exchanged for equity of UGC Europe, Inc., a new holding company of UPC (UGC Europe). Upon consummation, UGC received approximately 65.5% of UGC Europe's equity in exchange for UPC debt securities that it owned; third-party noteholders received approximately 32.5% of UGC Europe's equity; and existing preferred and ordinary shareholders, including UGC, received 2% of UGC Europe's equity.

On December 18, 2003, UGC completed its offer to exchange its Class A common stock for the outstanding shares of UGC Europe common stock that it did not already own. Upon completion of the exchange offer, UGC owned 92.7% of the outstanding shares of UGC Europe common stock. On December 19, 2003, UGC effected a short-form merger with UGC Europe. In the short-form merger, each share of UGC Europe common stock not tendered in the exchange offer was converted into the right to receive the same consideration offered in the exchange offer, and UGC acquired the remaining 7.3% of UGC Europe. In connection with UGC's acquisition of the minority interest in UGC Europe, we calculated a \$680,488,000 gain due to the dilutive effect on our investment in UGC and the implied per share value of the exchange offer. However, as we had suspended recording losses of UGC in 2002 and these suspended losses exceeded the aforementioned gain, we did not recognize the gain in our consolidated financial statements.

As discussed in detail in note 5, on January 5, 2004, we completed a transaction pursuant to which we gained voting control of UGC. Accordingly, UGC has been accounted for as a consolidated subsidiary and included in our financial position and results of operations since January 1, 2004.



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(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

Summarized financial information for UGC as of December 31, 2003 and for 2003 and 2002 is as follows:

|   |  | <b>December 31, 2003</b>    |                  |
|---|--|-----------------------------|------------------|
|   |  | <b>amounts in thousands</b> |                  |
| <b>Financial Position</b>                         |  |                             |                  |
| Current assets                                    |  | \$                          | 622,321          |
| Property and equipment, net                       |  |                             | 3,342,743        |
| Intangible and other assets, net                  |  |                             | 3,134,607        |
| <b>Total assets</b>                               |  | <b>\$</b>                   | <b>7,099,671</b> |
| Debt, including liabilities subject to compromise |  | \$                          | 4,351,905        |
| Other liabilities                                 |  |                             | 1,252,513        |
| Minority interest                                 |  |                             | 22,761           |
| Shareholders' equity                              |  |                             | 1,472,492        |
| <b>Total liabilities and equity</b>               |  | <b>\$</b>                   | <b>7,099,671</b> |

|   |  | <b>Year ended December 31,</b> |                |
|---|--|--------------------------------|----------------|
|   |  | <b>2003</b>                    | <b>2002</b>    |
|   |  | <b>amounts in thousands</b>    |                |
| <b>Results of Operations</b>  |  |                                |                |
| Revenue   |  | \$ 1,891,530                   | 1,515,021      |
| Operating, selling, general and administrative expenses                             |  | (1,262,648)                    | (1,218,647)    |
| Depreciation and amortization   |  | (808,663)                      | (730,001)      |
| Impairment of long-lived assets, restructuring charges and stock-based compensation |  | (476,233)                      | (465,655)      |
| Operating loss  |  | (656,014)                      | (899,282)      |
| Interest expense  |  | (327,132)                      | (680,101)      |
| Gain on extinguishment of debt  |  | 2,183,997                      | 2,208,782      |
| Share of earnings (losses) of affiliates  |  | 294,464                        | (72,142)       |
| Foreign currency transaction gains, net   |  | 153,808                        | 485,938        |
| Minority interest in losses (earnings) of subsidiaries                              |  | 183,182                        | (67,103)       |
| Other, net  |  | 163,063                        | 12,176         |
| <b>Net income from continuing operations</b>  |  | <b>\$ 1,995,368</b>            | <b>988,268</b> |



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**(7) Other Investments**

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

|  | <b>December 31,</b>         |             |
|--|-----------------------------|-------------|
|  | <b>2004</b>                 | <b>2003</b> |
|  | <b>amounts in thousands</b> |             |
| ABC Family   | \$ 387,380                  |             |
| SBS Broadcasting S.A. (SBS)  | 241,500                     |             |
| News Corp.   | 102,630                     |             |
| Sky Latin America  | 85,846                      | 94,347      |
| Telewest Global, Inc., the successor to Telewest Communications plc (Telewest) |                             | 281,392     |
| Cable Partners Europe (CPE)  |                             | 74,068      |
| Other  | 21,252                      | 327         |
| <br>Total other investments  | <br>\$ 838,608              | <br>450,134 |

Our investments in ABC Family, SBS and News Corp. are all accounted for as available-for-sale securities. We accounted for our investments in Telewest and CPE as available-for-sale securities during the periods in which we held those investments.

**ABC Family**

At December 31, 2004, we owned a 99.9% beneficial interest in 345,000 shares of the 9% Series A preferred stock of ABC Family with an aggregate liquidation value of \$345 million. The issuer is required to redeem the ABC Family preferred stock at its liquidation value on August 1, 2027, and has the option to redeem the ABC Family preferred stock at its liquidation value at any time after August 1, 2007. We have the right to require the issuer to redeem the ABC Family preferred stock at its liquidation value during the 30 day periods commencing upon August 2 of the years 2017 and 2022. Liberty contributed this interest to our company in connection with the spin off. We recognized dividend income on the ABC Family preferred stock of \$18,217,000 during the period from the Spin Off Date through December 31, 2004.

**SBS**

At December 31, 2004, UGC owned 6,000,000 shares or approximately 19% of the outstanding shares of SBS, a European commercial television and radio broadcasting company. UGC records these marketable equity securities at fair value using quoted market prices.

**News Corp.**

Liberty contributed 10,000,000 shares of News Corp. Class A common stock to our company in connection with the spin off. During the fourth quarter of 2004, we sold 4,500,000 shares of News Corp. Class A common stock for aggregate cash proceeds of \$83,669,000 (\$29,770,000 of which was received in 2005), resulting in a pre-tax gain of \$37,174,000. Accordingly, we owned 5,500,000 shares of News Corp. Class A common stock at December 31, 2004.

**Sky Latin America**

Prior to October 2004, we held a 10% ownership interest in each of three direct-to-home satellite providers that operate in Brazil (Sky Brasil), Mexico (Sky Mexico) and Chile and Colombia (Sky Multi-Country) (collectively, Sky

Latin America), which were accounted for as cost investments. Prior to August 2004, we also held an investment in public debt securities issued by Sky Brasil and accounted for this investment as an available-for-sale security. 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 \$6,000,000 in respect of the Sky Multi-Country platform, which amount was offset against a separate payment we received from the purchaser as explained below. We also

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**December 31, 2004, 2003 and 2002 (Continued)**

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 light of the contingencies involved, we have not treated either of the Sky Mexico or Sky Brasil transactions as a sale for accounting purposes until such time as the necessary regulatory approvals are obtained and, in the case of Sky Mexico, the cash is received.

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.

In 2002, we determined that due to, among other factors, economic conditions in the countries in which Sky Latin America operates, our investment in Sky Latin America experienced an other-than-temporary decline in value. As a result, the investment in each of the Sky Latin America entities was adjusted to its respective fair value based on a discounted cash flow model and per subscriber values. In the case of Sky Multi-Country, we determined that because of low subscriber counts, lack of economies of scale and the future projected cash needs of Sky Multi-Country, the entire investment should be written off at December 31, 2002. In addition, all amounts funded to Sky Multi-Country in 2003 were expensed when paid. The total amount of impairment for Sky Latin America in 2003 and 2002 was \$6,884,000 and \$105,250,000, respectively.

***Telewest***

During 2002, we purchased \$370,177,000 and £67,222,000 (\$128,965,000) of Telewest bonds for cash proceeds of \$204,087,000. At December 31, 2002, we determined that the Telewest bonds had experienced an other-than-temporary decline in value. As a result, the carrying values of the Telewest bonds were adjusted to their respective estimated fair values based on quoted market prices at the balance sheet date, and LMC recognized an other-than-temporary decline in value of \$141,271,000.

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. In connection with this transaction, we recognized a pre-tax gain of \$168,301,000, representing the excess of the fair value of the Telewest common stock received over our cost basis in the Senior Notes and Senior Discount Notes. During the third and fourth quarters of 2004, we sold all of the acquired Telewest shares for aggregate cash proceeds of \$215,708,000, resulting in a pre-tax loss of \$16,407,000. Based on our third quarter 2004 determination that we would dispose of all remaining Telewest shares during the fourth quarter of 2004, the \$12,429,000 excess of the carrying value over the fair value of the Telewest shares that we held as of September 30, 2004 was included in other-than-temporary declines in fair values of investments in our consolidated statement of operations. Consistent with our classification of the Senior Notes and Senior Discount Notes and the Telewest common stock as

available-for-sale securities, the above-described gains and losses were reflected as components of our accumulated other comprehensive loss account prior to their reclassification into our consolidated statements of operations.

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*Unrealized holding gains and losses*

Unrealized holding gains and losses related to investments in available-for-sale securities that are included in accumulated other comprehensive earnings (loss), net of tax, are summarized as follows:

|                                 | December 31,         |                    |                      |                    |
|---------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                 | 2004                 |                    | 2003                 |                    |
|                                 | Equity<br>securities | Debt<br>securities | Equity<br>securities | Debt<br>securities |
|                                 | amounts in thousands |                    |                      |                    |
| Gross unrealized holding gains  | \$ 92,195            | 18,516             | 156                  | 210,925            |
| Gross unrealized holding losses | \$                   |                    |                      |                    |

**(8) Derivative Instruments**

The following table provides detail of the fair value of our derivative instrument assets (liabilities), net:

|  | December 31,         |          |
|--|----------------------|----------|
|  | 2004                 | 2003     |
|  | amounts in thousands |          |
| Foreign exchange derivatives                 | \$ (5,305)           | (18,594) |
| Total return debt swaps                      | 23,731               | 22,983   |
| Interest rate caps                           | 2,384                |          |
| Cross-currency and interest rate swaps       | (25,648)             |          |
| Variable forward transaction                 | (3,305)              |          |
| Call agreements on LMI Series A common stock | 49,218               |          |
| Other  |                      | (2,416)  |
| Total  | \$ 41,075(1)         | 1,973    |
| Current asset                                | \$ 73,507            |          |
| Current liability                            | (14,636)             | (21,010) |
| Long-term asset                              | 2,568                | 22,983   |
| Long-term liability                          | (20,364)             |          |
| Total  | \$ 41,075(1)         | 1,973    |

(1) Excludes embedded equity derivative component of the UGC Convertible Notes as amount is presented in long-term debt in the accompanying consolidated balance sheet.

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

|  | <b>Year ended December 31,</b>   |               |                 |
|--|----------------------------------|---------------|-----------------|
|  | <b>2004</b>                      | <b>2003</b>   | <b>2002</b>     |
|  | <b>as restated<br/>(note 23)</b> |               |                 |
|  | <b>amounts in thousands</b>      |               |                 |
| Foreign exchange derivatives                 | \$ 196                           | (22,626)      | (11,239)        |
| Total return debt swaps                      | 2,384                            | 37,804        | (1,088)         |
| Cross-currency and interest rate swaps       | (43,779)                         |               |                 |
| Interest rate caps                           | (20,318)                         |               |                 |
| Embedded equity and other derivatives        | 23,032                           |               |                 |
| Variable forward transaction                 | 1,013                            |               |                 |
| Call agreements on LMI Series A common stock | 1,713                            |               |                 |
| Other  | (16)                             | (2,416)       | (4,378)         |
| <b>Total</b>                                 | <b>\$ (35,775)</b>               | <b>12,762</b> | <b>(16,705)</b> |

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
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***Foreign Exchange Contracts***

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<sup>1</sup>/<sub>2</sub> 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.

***Total Return Debt Swaps***

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 S.A. (Cablevisión), the largest cable television company in Argentina, in terms of basic cable subscribers. 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 have 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 UPC 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 \$22,642,000 upon termination of the Cablevisión and UPC subsidiary total return swaps.

***UGC Interest Rate and Cross-currency Derivative Contracts***

During the first quarter of 2003, UGC purchased interest rate caps related to the UPC Broadband Bank Facility (see note 10) that capped the variable Euro Interbank Offered Rate (EURIBOR) interest rate at 3.0% on a notional amount of 2.7 billion in 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% in 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,

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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.

***Embedded Equity Derivative***

For a description of the equity derivative instrument embedded in the UGC Convertible Notes, see note 10. Changes in the fair value of this equity derivative instrument are reported in our consolidated statement of operations.

***Variable Forward Transaction***

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 \$126,000,000 under the forward. Such advances were subsequently repaid during the quarter.

***Call Agreements on LMI Series A common stock***

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.

**(9) Long-Lived Assets*****Property and Equipment***

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

|                                       | <b>December 31,</b>         |             |
|---------------------------------------|-----------------------------|-------------|
|                                       | <b>2004</b>                 | <b>2003</b> |
|                                       | <b>amounts in thousands</b> |             |
| Cable distribution systems            | \$ 5,280,307                | 116,962     |
| Support equipment, buildings and land | 23,601                      | 11,051      |
|                                       | 5,303,908                   | 128,013     |
| Accumulated depreciation              | (1,000,809)                 | (30,436)    |

|                            |    |           |        |
|----------------------------|----|-----------|--------|
| Net property and equipment | \$ | 4,303,099 | 97,577 |
|----------------------------|----|-----------|--------|

During the second quarter of 2004, UGC recorded an impairment of \$16,111,000 on certain tangible fixed assets of its wholly owned subsidiary, Priority Telecom. The impairment assessment was triggered by competitive factors in 2004

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that led to a greater than expected price erosion and the inability to reach forecasted market share. Fair value of the tangible assets was estimated using a discounted cash flow analysis, along with other available market data. In the fourth quarter of 2004, UGC recorded an impairment of \$10,955,000 related to certain tangible fixed assets in The Netherlands. In addition, during 2004 UGC recorded several minor impairments for long-lived assets which had no future service potential due to changes in management's plans.

Depreciation expense related to our property and equipment was \$894,789,000, \$14,642,000 and \$13,037,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

**Goodwill**

Changes in the carrying amount of goodwill for 2004 were as follows:

|                                  | January<br>1,<br>2004 | Acquisitions     | Release of<br>pre-acquisition<br>valuation<br>allowance | Impairments     | Foreign<br>currency<br>translation<br>adjustments | December<br>31,<br>2004 |
|----------------------------------|-----------------------|------------------|---|-----------------|---|-------------------------|
| <b>amounts in thousands</b>      |                       |                  |   |                 |   |                         |
| UGC Broadband<br>The Netherlands | \$                    | 680,349          | (6,374)   |                 | 55,960  | 729,935                 |
| UGC Broadband<br>Austria         |                       | 460,810          | (2,893)   |                 | 37,416  | 495,333                 |
| UGC Broadband<br>Other Europe    |                       | 506,854          | (34,133)  |                 | 56,869  | 529,590                 |
| UGC Broadband<br>Chile (VTR)     |                       | 191,785          | (4,575)   |                 | 11,876  | 199,086                 |
| J-COM                            | 203,000               |                  |   |                 |   | 203,000                 |
| All other                        | 322,576               | 211,590          | (10,105)  | (29,000)        | 15,274  | 510,335                 |
| <b>Total LMI</b>                 | <b>\$ 525,576</b>     | <b>2,051,388</b> | <b>(58,080)</b>   | <b>(29,000)</b> | <b>177,395</b>                                    | <b>2,667,279</b>        |

During 2004, we recorded a \$26,000,000 impairment of certain enterprise level goodwill associated with Pramer and a \$3,000,000 impairment of the enterprise level goodwill associated with one of our equity affiliates. The impairment assessment for Pramer was triggered by our determination that it was more-likely-than-not that we will sell Pramer. Accordingly, the fair value used to assess the recoverability of the enterprise level goodwill associated with Pramer was based on the value that we would expect to receive upon any sale of Pramer.

During the year ended December 31, 2004, UGC reversed valuation allowances for deferred tax assets in various tax jurisdictions due to the realization or expected realization of tax benefits from these assets. The valuation allowances were originally recorded as part of the purchase accounting adjustments related to the UGC Founders Transaction and the UGC Europe exchange offer and merger and were therefore reversed against goodwill.

Prior to January 1, 2004, when we began consolidating UGC, all of our goodwill was enterprise level goodwill.

During 2002 we recorded impairment charges aggregating \$45,928,000 to reduce the carrying value of the enterprise level goodwill, including \$39,000,000 related to our investment in Metr polis (see note 6). There were no changes in our goodwill balances during 2003.



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***Intangible Assets Subject to Amortization, Net***

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

|                                 | <b>December 31,</b>         |             |
|---------------------------------|-----------------------------|-------------|
|                                 | <b>2004</b>                 | <b>2003</b> |
|                                 | <b>amounts in thousands</b> |             |
| <b>Gross carrying amount</b>    |                             |             |
| Customer relationships          | \$ 426,213                  |             |
| Other                           | 31,420                      | 6,083       |
|                                 | \$ 457,633                  | 6,083       |
| <b>Accumulated amortization</b> |                             |             |
| Customer relationships          | \$ (71,311)                 |             |
| Other                           | (3,723)                     | (1,579)     |
|                                 | \$ (75,034)                 | (1,579)     |
| <b>Net carrying amount</b>      |                             |             |
| Customer relationships          | \$ 354,902                  |             |
| Other                           | 27,697                      | 4,504       |
|                                 | \$ 382,599                  | 4,504       |

Amortization of intangible assets with finite useful lives was \$66,099,000 and \$472,000 in 2004 and 2003, respectively. Based on our current amortizable intangible assets, we expect that amortization expense will be as follows for the next five years and thereafter (amounts in thousands):

|              |                   |
|--------------|-------------------|
| 2005         | \$ 78,803         |
| 2006         | 73,235            |
| 2007         | 68,935            |
| 2008         | 65,601            |
| 2009         | 65,601            |
| Thereafter   | 30,424            |
| <b>Total</b> | <b>\$ 382,599</b> |

**(10) Debt**

The components of debt were as follows:

|   | <b>December 31,</b>              |               |
|---|----------------------------------|---------------|
|   | <b>2004</b>                      | <b>2003</b>   |
|   | <b>as restated<br/>(note 23)</b> |               |
|   | <b>amounts in thousands</b>      |               |
| UPC Broadband Bank Facility                         | \$ 3,927,830                     |               |
| UGC Convertible Notes                               | 655,809                          |               |
| Other UGC debt                                      | 269,269                          |               |
| Other subsidiary debt and capital lease obligations | 139,838                          | 54,126        |
| <b>Total debt</b>                                   | <b>4,992,746</b>                 | <b>54,126</b> |
| Current maturities                                  | (36,827)                         | (12,426)      |
| <b>Total long-term debt</b>                         | <b>\$ 4,955,919</b>              | <b>41,700</b> |

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***UPC Broadband Bank Facility***

The UPC Broadband Bank Facility is the senior secured credit facility of UPC Broadband Holding B.V. (UPC Broadband), formerly known as UPC Distribution Holding B.V., an indirect wholly owned subsidiary of UPC. The UPC Broadband Bank Facility, originally executed in October 2000, is secured by the assets of UPC Broadband's majority-owned operating companies, and is senior to other long-term debt obligations of UPC.

The indenture governing the UPC Broadband Bank Facility 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 indirectly to UGC) through loans, advances or dividends. If a change of control exists with respect to UGC's ownership of UGC Europe, UGC Europe's ownership of UPC Broadband or UPC Broadband's ownership of its respective subsidiaries, the facility agent may cancel each Facility and demand full payment. The covenants also provide for the following ratios (which vary depending on the period used for the calculation): (i) senior debt to annualized earnings before interest taxes and depreciation, as defined in the indenture for the UPC Broadband Bank Facility, (EBITDA) ranging from 4.00:1 to 7.75:1 (ii) EBITDA to total cash ranging from 2.00:1 to 3.00:1 (iii) EBITDA to senior debt service ranging from 0.65:1 to 2.25:1 (iv) EBITDA to senior interest ranging from 2.10:1 to 3.40:1; and (v) total debt to annualized EBITDA ranging from 5.75:1 to 7.50:1.

In January 2004, the UPC Broadband Bank Facility was amended to permit indebtedness under a new tranche (Facility D). Facility D had substantially the same terms as the then existing facilities, and consisted of five different tranches totaling 1.072 billion (\$1.462 billion). The proceeds of Facility D were limited in use to fund the scheduled payments of Facility B between December 2004 and December 2006.

In June 2004, UPC Broadband amended 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 1.022 billion (\$1.394 billion), which, in conjunction with cash contributed indirectly by us, was used to: (i) repay some of the indebtedness borrowed under the other Facilities; (ii) redeem the UPC Polska senior notes due 2007; and (iii) provide funding for the Noos Acquisition.

In December 2004, the UPC Broadband Bank Facility was amended to add a new Facility F term loan that: (i) increased the average debt maturity under the UPC Broadband Bank Facility; (ii) increased the available liquidity under the Facility; and (iii) reduced the average interest margin under the Facility. The amendment consisted of a \$525,000,000 tranche and a 140,000,000 (\$190,918,000) tranche, totaling 535,019,000 (\$729,605,000) in gross borrowings. The proceeds from these borrowings were applied to: (i) repay 245,000,000 (\$334,106,000) under Facility A (representing all then outstanding amounts); (ii) prepay 101,224,000 (\$138,039,000) of Facility B that were scheduled to mature in June 2006; (iii) prepay 177,013,000 (\$241,393,000) of Facility C; and (iv) pay transaction fees of 11,782,000 (\$16,067,000).

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

| Facility                    | Currency | December 31, 2004 |              | December 31, 2003 |              | Interest rate(3)        |
|-----------------------------|----------|-------------------|--------------|-------------------|--------------|-------------------------|
|                             |          | Euros             | US dollars   | Euros             | US dollars   |                         |
| <b>amounts in thousands</b> |          |                   |              |                   |              |                         |
| A(1)(2)                     | Euro     |                   | \$           | 230,000           | \$ 289,946   | EURIBOR +<br>2.25% 4.0% |
| B(1)                        | Euro     | 1,160,026         | 1,581,927    | 2,333,250         | 2,941,380    | EURIBOR +<br>2.25% 4.0% |
| C1                          | Euro     | 44,338            | 60,464       | 95,000            | 119,760      | EURIBOR +<br>5.5%       |
| C2                          | USD      |                   | 176,020      |                   | 347,500      | LIBOR +<br>5.5%         |
| E                           | Euro     | 1,021,853         | 1,393,501    |                   |              | EURIBOR +<br>3.0%       |
| F1(1)                       | Euro     | 140,000           | 190,918      |                   |              | EURIBOR +<br>3.25% 4.0% |
| F2(1)                       | USD      |                   | 525,000      |                   |              | LIBOR +<br>3.00% 3.5%   |
| Total                       |          | 2,366,217         | \$ 3,927,830 | 2,658,250         | \$ 3,698,586 |                         |

- (1) The interest rate margin is variable based on certain leverage ratios.
- (2) Facility A is a revolving credit facility that has availability of 666,750,000 (\$909,247,000) as of December 31, 2004, which can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance. Facility A provides for an annual commitment fee of 0.5% for the unused portion of this facility.
- (3) As of December 31, 2004, six month EURIBOR and LIBOR rates were approximately 2.2% and 2.8%, respectively. The weighted-average interest rate on all Facilities in 2004 was approximately 6.0%. 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.

***UGC Convertible Notes***

On April 6, 2004, UGC completed the offering and sale of 500 million (\$604,595,000 based on the April 6, 2004 exchange rate) 1<sup>3</sup>/<sub>4</sub>% euro-denominated convertible senior notes (the UGC Convertible Notes) due April 15, 2024. Interest is payable semi-annually on April 15 and October 15 of each year, beginning October 15, 2004. The UGC Convertible Notes are senior unsecured obligations that rank equally in right of payment with all of UGC's existing and future senior unsubordinated and unsecured indebtedness and ranks senior in right to all of UGC's existing and future subordinated indebtedness. The UGC Convertible Notes are effectively subordinated to all existing and future

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indebtedness and other obligations of UGC's subsidiaries. The indenture governing the UGC Convertible Notes (the Indenture) does not contain any financial or operating covenants. The UGC Convertible Notes may be redeemed at UGC's option, in whole or in part, on or after April 20, 2011 at a redemption price in euros equal to 100% of the principal amount, together with accrued and unpaid interest. Holders of the UGC Convertible Notes have the right to tender all or part of their notes for purchase by UGC on April 15, 2011, April 15, 2014 and April 15, 2019, for a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest. If a change in control (as defined in the Indenture) has occurred, each holder of the UGC Convertible Notes may require UGC to purchase their notes, in whole or in part, at a price equal to 100% of the principal amount, plus accrued and unpaid interest. The UGC Convertible Notes are convertible into 51,250,000 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. Holders of the UGC Convertible Notes may surrender their notes for conversion prior to maturity in the following circumstances: (i) the price of UGC Class A common stock issuable upon conversion of a UGC Convertible Note reaches a specified threshold, (ii) UGC has called the UGC Convertible Notes for redemption, (iii) the trading price for the UGC Convertible Notes falls below a specified threshold or (iv) UGC makes certain distributions to holders of UGC Class A common stock or specified corporate transactions occur.

The UGC Convertible Notes represent a compound financial instrument that contains a foreign currency debt component and an equity component that is indexed to both UGC's Class A common stock and to currency exchange rates (euro to U.S. dollar). We account for the embedded equity component separately at fair value, with changes in fair value reported in our consolidated statement of operations. The fair value of the embedded equity component (\$193,645,000 at December 31, 2004) and the debt host contract (\$462,164,000 at December 31, 2004) are presented together in long-term debt in our consolidated balance sheet.

***Other UGC Debt***

***VTR Bank Facility.*** On December 17, 2004, VTR completed the refinancing of its existing bank facility with a new Chilean peso-denominated six-year amortizing term senior secured credit facility (the VTR Bank Facility at December 17, 2004). 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. The VTR Bank Facility bears interest at variable rates (5.19% at December 31, 2004) that are subject to reduction depending on VTR's solvency rating and debt to EBITDA ratio. The VTR Bank Facility is secured by VTR's assets and the assets and capital stock of its subsidiaries, is senior to the subordinated debt owed to UGC and ranks pari passu to future senior indebtedness of VTR. The VTR Bank Facility credit agreement contains customary financial covenants and allows for the distribution by VTR of certain restricted payments, such as dividends to its shareholders, as long as no default exists under the facility and VTR maintains certain minimum levels of cash. VTR is in compliance with its loan covenants.

***InvestCos Notes (Telenet).*** At December 31, 2004, UGC's debt included \$87,821,000 related to mandatorily redeemable securities of the InvestCos, the consolidated subsidiaries of UGC that own a direct investment in Telenet. These securities are subject to mandatory redemption on March 30, 2050. Upon an initial public offering of Telenet or the occurrence of certain other events, these securities will become immediately redeemable. Given the mandatory redemption feature, UGC has classified these securities as debt and has recorded these securities at their estimated fair value at December 31, 2004 in conjunction with the preliminary purchase price allocation for the acquisition of Belgium Cable Investors and its indirect interest in Telenet. See note 6. Once the purchase price allocation is finalized, subsequent changes in fair value will be reported in earnings.



*UPC Polska Notes.* UPC Polska, Inc. (UPC Polska) is an indirect subsidiary of UGC. 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 recognized a gain of \$31,916,000 from the extinguishment of the UPC Polska Notes and other liabilities subject to compromise, equal to the excess of their respective carrying

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amounts over the fair value of consideration given. During 2004, UPC Polska incurred costs associated with its reorganization aggregating \$5,951,000. Such costs are included in other income (expense), net in the accompanying consolidated statement of operations. As noted above, UGC redeemed the new 9% UPC Polska Notes due 2007 for a cash payment of \$101,701,000 during the third quarter of 2004.

**Other Subsidiary Debt**

*Liberty Cablevision Puerto Rico.* On December 23, 2004, Liberty Cablevision Puerto Rico completed the refinancing of its existing bank facility with a new \$140 million facility consisting of a \$125 million six-year term loan facility and a \$15 million six-year revolving credit facility (the Liberty Cablevision Puerto Rico Facility). In connection with the closing of the Liberty Cablevision Puerto Rico Facility, (i) Liberty Cablevision Puerto Rico made a \$63,500,000 cash distribution to our company and (ii) the \$50,542,000 cash collateral for Liberty Cablevision Puerto Rico's previous bank facility was released to our company. At December 31, 2004, the aggregate amount outstanding under this facility was \$127,500,000. The Liberty Cablevision Puerto Rico Facility bears interest at LIBOR plus a 2.25% margin (5.0% at December 31, 2004). The LIBOR margin is subject to reduction depending on Liberty Cablevision Puerto Rico's debt to EBITDA ratio, as defined by the Liberty Cablevision Puerto Rico Facility. The Liberty Cablevision Puerto Rico Facility is secured by a pledge of the capital stock of Liberty Cablevision Puerto Rico and by Liberty Cablevision Puerto Rico's assets, including the capital stock of its subsidiaries. The Liberty Cablevision Puerto Rico Facility contains customary financial covenants.

*Pramer.* 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. At closing, Pramer made an approximate \$1.8 million payment to the banks. The remaining outstanding principal of \$10.5 million amortizes over the next 4 years. The New Pramer Facility is denominated in U.S. dollars and bears interest at LIBOR plus a 3.5% margin during 2005 (6.1% at January 28, 2005). The LIBOR margin is subject to annual increases of 0.5% per year. The New Pramer Facility credit agreement contains customary financial covenants.

**General**

Our debt maturities for the next five years and thereafter are as follows (amounts in thousands):

|  |    |              |
|--|----|--------------|
| 2005   | \$ | 36,827       |
| 2006   |    | 571,464      |
| 2007   |    | 745,004      |
| 2008   |    | 588,484      |
| 2009   |    | 1,533,182    |
| Thereafter   |    | 1,543,826    |
| Total debt maturities  |    | 5,018,787    |
| Unamortized discount on UGC Convertible Notes, net of fair value of embedded equity derivative (as restated - note 23) |    | (26,041)     |
| Total debt (as restated - note 23)   |    | \$ 4,992,746 |

We believe that the fair value and the carrying value of our debt were approximately equal at December 31, 2004.

**(11) Income Taxes**

Prior to the Spin Off Date, LMC International and its 80%-or-more-owned domestic subsidiaries (the LMC International Tax Group) are included in the consolidated federal and state income tax returns of Liberty. LMC International's income taxes included those items in the consolidated income tax calculation applicable to the LMC

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International Tax Group (intercompany tax allocation) and any taxes on income of LMC International's consolidated foreign or domestic subsidiaries that are excluded from the consolidated federal and state income tax returns of Liberty. The intercompany tax amounts owed to Liberty as a result of these allocations were contributed to our equity in connection with the spin off.

In connection with the spin off, LMI (together with its 80%-or-more-owned domestic subsidiaries, the LMI Tax Group), (i) became a separate tax paying entity, and (ii) entered into a Tax Sharing Agreement with Liberty. Under the Tax Sharing Agreement, Liberty is responsible for U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary return that includes the LMI Tax Group, on the one hand, and Liberty or one of its subsidiaries on the other hand, subject to certain limited exceptions. We are responsible for all other taxes that are attributable to the LMI Tax Group, whether accruing before, on or after the spin off. The Tax Sharing Agreement requires that we will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the spin off from qualifying as a tax-free transaction. Moreover, we will indemnify Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the spin off from qualifying as a tax-free transaction.

As a result of the LMI Tax Group becoming a separate tax paying entity in connection with the spin off, we re-evaluated the estimated blended state tax rate used to compute certain of our deferred tax balances, and concluded that our estimate of this blended state tax rate should be reduced. As a result, we recorded a \$22,938,000 deferred tax benefit during the third quarter of 2004 to reflect the impact of the reduced rate on our net deferred tax liabilities.

Income tax benefit (expense) consists of:

|                                      | <b>Current</b>              | <b>Deferred</b> | <b>Total</b> |
|--------------------------------------|-----------------------------|-----------------|--------------|
|                                      | <b>amounts in thousands</b> |                 |              |
| <b>Year ended December 31, 2004:</b> |                             |                 |              |
| Federal                              | \$ (51,851)                 | 75,974          | 24,123       |
| State and local                      | (4,554)                     | 13,694          | 9,140        |
| Foreign                              | (10,295)                    | (5,519)         | (15,814)     |
|                                      | \$ (66,700)                 | 84,149          | 17,449       |
| <b>Year ended December 31, 2003:</b> |                             |                 |              |
| Federal                              | \$ 14,774                   | (28,630)        | (13,856)     |
| State and local                      |                             | (5,589)         | (5,589)      |
| Foreign                              | (471)                       | (8,059)         | (8,530)      |
|                                      | \$ 14,303                   | (42,278)        | (27,975)     |
| <b>Year ended December 31, 2002:</b> |                             |                 |              |
| Federal                              | \$ (3,988)                  | 140,533         | 136,545      |
| State and local                      |                             | 26,527          | 26,527       |
| Foreign                              | 503                         | 2,546           | 3,049        |
|                                      | \$ (3,485)                  | 169,606         | 166,121      |



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Income tax benefit (expense) attributable to our company's pre-tax loss or earnings differs from the amounts computed by applying the U.S. federal income tax rate of 35%, as a result of the following:

|  | <b>Year ended December 31,</b>   |             |             |
|--|----------------------------------|-------------|-------------|
|  | <b>2004</b>                      | <b>2003</b> | <b>2002</b> |
|  | <b>as restated<br/>(note 23)</b> |             |             |
|  | <b>amounts in thousands</b>      |             |             |
| Computed expected tax benefit (expense)                                      | \$ 70,995                        | (17,111)    | 173,593     |
| State and local income taxes, net of federal income taxes                    | (774)                            | (4,315)     | 15,472      |
| Foreign taxes  | (308)                            | (7,922)     | 1,841       |
| Enacted tax law changes, case law and rate changes                           | (149,294)                        |             |             |
| Gain on extinguishment of debt   | 107,863                          |             |             |
| Losses on sale of investments, affiliates and other assets                   | 78,693                           |             |             |
| Non-deductible interest and other expenses                                   | (74,966)                         |             | (16,153)    |
| Non-deductible or taxable foreign currency exchange results                  | (27,702)                         |             |             |
| Income recognized for tax purposes, but not for financial reporting purposes | (25,820)                         |             | (2,679)     |
| Change in valuation allowance  | (22,131)                         |             |             |
| Change in estimated blended state tax rate                                   | 22,938                           |             |             |
| Non-taxable investment income  | 20,481                           |             |             |
| Financial instruments  | 6,711                            |             |             |
| International rate differences   | 6,511                            |             |             |
| Other, net   | 4,252                            | 1,373       | (5,953)     |
|  | \$ 17,449                        | (27,975)    | 166,121     |

The current and non-current components of our deferred tax assets (liabilities) are as follows:

|  | <b>December 31,</b>         |             |
|--|-----------------------------|-------------|
|  | <b>2004</b>                 | <b>2003</b> |
|  | <b>amounts in thousands</b> |             |
| Current deferred tax assets            | \$ 38,355                   | 9,697       |
| Non-current deferred tax assets        | 77,313                      | 583,945     |
| Non-current deferred tax liabilities   | (458,138)                   | (135,811)   |
| Deferred tax assets (liabilities), net | \$ (342,470)                | 457,831     |

Our deferred income tax valuation allowance increased \$2,281,253,000 in 2004, including a \$22,131,000 charge to tax expense, with the remaining net increase resulting from the January 1, 2004 consolidation of UGC, acquisitions, foreign currency translation adjustments and other items. Approximately \$546 million of the valuation allowance recorded as of December 31, 2004 was attributable to deferred tax assets for which any subsequently recognized tax benefits will be allocated to reduce goodwill related to various business combinations.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

|   | <b>December 31,</b>         |             |
|---|-----------------------------|-------------|
|   | <b>2004</b>                 | <b>2003</b> |
|   | <b>amounts in thousands</b> |             |
| <i>Deferred tax assets:</i>                     |                             |             |
| Investments                                     | \$ 66,862                   | 499,214     |
| Net operating loss carryforwards                | 1,770,957                   | 7,263       |
| Property and equipment, net                     | 556,507                     |             |
| Intangible assets, net                          | 44,303                      |             |
| Deferred compensation and severance             | 41,686                      | 7,315       |
| Other future deductible amounts                 | 100,596                     | 8,508       |
| Deferred tax assets                             | 2,580,911                   | 522,300     |
| Valuation allowance                             | (2,281,253)                 |             |
| Deferred tax assets, net of valuation allowance | 299,658                     | 522,300     |
| <i>Deferred tax liabilities:</i>                |                             |             |
| Investments                                     | (344,871)                   |             |
| Property and equipment                          | (53,124)                    | (14,749)    |
| Intangible assets                               | (127,712)                   | (19,038)    |
| Unrealized gains on investments                 | (25,287)                    |             |
| Other future taxable amounts                    | (91,134)                    | (30,682)    |
| Deferred tax liabilities                        | (642,128)                   | (64,469)    |
| Net deferred tax asset (liability)              | \$ (342,470)                | 457,831     |

The significant components of our tax loss carryforwards and related tax assets are as follows (amounts in thousands):

| <b>Country</b>  | <b>Tax loss<br/>carryforward</b> | <b>Related tax<br/>asset</b> | <b>Expiration<br/>date</b> |
|-----------------|----------------------------------|------------------------------|----------------------------|
| France          | \$ 2,425,612                     | 835,138                      | Indefinite                 |
| The Netherlands | 1,910,476                        | 574,542                      | Indefinite                 |
| Ireland         | 293,686                          | 36,711                       | Indefinite                 |
| Austria         | 249,025                          | 62,257                       | Indefinite                 |
| Luxembourg      | 243,936                          | 74,108                       | Indefinite                 |
| Chile           | 241,232                          | 41,009                       | Indefinite                 |
| Norway          | 117,856                          | 33,000                       | 2007-2012                  |



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|               |                     |                  |           |
|---------------|---------------------|------------------|-----------|
| Poland        | 69,901              | 13,281           | 2005-2008 |
| United States | 23,193              | 8,118            | 2021-2024 |
| Other         | 401,906             | 92,793           | Various   |
| <b>Total</b>  | <b>\$ 5,976,823</b> | <b>1,770,957</b> |           |

Our tax loss carryforwards in The Netherlands are associated with various different tax groups, which are limited in their ability to offset taxable income of other Dutch tax groups. We intend to indefinitely reinvest earnings from certain foreign operations except to the extent the earnings are subject to current U.S. income taxes. Accordingly, U.S. and non-U.S. income and withholding taxes for which a deferred tax might otherwise be required have not been provided on a cumulative amount of temporary differences (including, for this purpose, any difference between the tax basis in stock of a consolidated subsidiary and the amount of the subsidiary's net equity determined for financial reporting purposes) related to investments in foreign subsidiaries are estimated to be approximately \$2.7 billion at December 31,

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2004. The determination of the additional U.S. and non-U.S. income and withholding tax that would arise upon a reversal of the temporary differences is subject to offset by available foreign tax credits, subject to certain limitations, and it is impractical to estimate the amount of income and withholding tax that might be payable.

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be controlled foreign corporations ( CFC ) under U.S. tax law. In general, our pro rata share of certain income earned by these subsidiaries that are CFCs during a taxable year when such subsidiaries have positive current or accumulated earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred to as Subpart F income, generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income.

In addition, a U.S. corporation that is a shareholder in a CFC may be required to include in its income its pro rata share of the CFC's increase in the average adjusted tax basis of any investment in U.S. property held by a wholly or majority owned CFC to the extent that the CFC has positive current or accumulated earnings and profits. This is the case even though the U.S. corporation may not have received any actual cash distributions from the CFC. Although we intend to take reasonable tax planning measures to limit our tax exposure, there can be no assurance we will be able to do so.

In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend.

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

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

**(12) Stockholders' Equity**

***Capitalization***

Our authorized capital stock consists of (i) 1,050,000,000 shares of common stock, par value \$.01 per share, of which 500,000,000 shares are designated LMI Series A Common Stock 50,000,000 shares are designated LMI Series B Common Stock and 500,000,000 shares are designated LMI Series C Common Stock and (ii) 50,000,000 shares of LMI preferred stock, par value \$.01 per share. LMI's restated certificate of incorporation authorizes the board of

directors to authorize the issuance of one or more series of preferred stock.

Under LMI's restated certificate of incorporation, holders of LMI Series A common stock are entitled to one vote for each share of such stock held, and holders of LMI Series B common stock are entitled to ten votes for each share of such stock held, on all matters submitted to a vote of LMI stockholders at any annual or special meeting. Holders of

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LMI Series C common stock are not entitled to any voting powers, except as required by Delaware law (in which case holders of LMI Series C common stock are entitled to 1/100th of a vote per share).

Each share of LMI Series A common stock is convertible into one share of LMI Series B common stock. At December 31, 2004, there were 1,701,538 shares of LMI Series A common stock and 3,066,716 shares of LMI Series B common stock reserved for issuance pursuant to outstanding stock options. In addition to these amounts, one share of LMI Series A common stock is reserved for issuance for each share of LMI Series B common stock that is either issued (7,264,300 shares) or subject to future issuance pursuant to outstanding stock options (3,066,716 shares). Subject to any preferential rights of any outstanding series of our preferred stock, the holder of LMI Series A, LMI Series B and LMI Series C common stock will be entitled to such dividends as may be declared from time to time by our board from funds available therefor. Except with respect to certain share distributions, whenever a dividend is paid to the holder of one of our series of common stock, we shall also pay to the holders of the other series of our common stock an equal per share dividend. 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.

In the event of our liquidation, dissolution and winding up, after payment or provision for payment of our debts and liabilities and subject to the prior payment in full of any preferential amounts to which our preferred stockholders may be entitled, the holders of LMI Series A, LMI Series B and LMI Series C common stock will share equally, on a share for share basis, in our assets remaining for distribution to the holders of LMI common stock.

***Treasury Stock***

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.

***Spin Off and LMI Rights Offering***

For information concerning the spin off transaction and the subsequent LMI Rights Offering, see note 2.

***Issuance of Shares by Subsidiaries***

During 2004, we recorded an aggregate increase to additional paid-in capital of \$11,126,000 as a result of the dilution of our ownership interest in UGC.

In addition, UGC recorded a loss of approximately 9,679,000 (\$11,776,000) associated with the dilution of its ownership interest in UPC Broadband France as a result of the Noos transaction. Our \$6,102,000 share of this loss is reflected as a reduction of additional paid-in capital in our consolidated statement of stockholders' equity.

***Restricted Net Assets***

At December 31, 2004, approximately \$1.8 billion of our net assets represented net assets of certain of our subsidiaries that were not available to be transferred to our company in the form of dividends, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

**(13) Stock Incentive Awards**

***LMI***

***Stock Incentive Plans***

As discussed in more detail in note 2, certain terms of the then outstanding LMI stock options were modified in connection with the LMI Rights Offering. All references herein to the number of outstanding LMI stock options and the related exercise prices reflect these modified terms.

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As a result of the spin off and related adjustments to Liberty's stock incentive awards, options to acquire an aggregate of 1,595,709 shares of LMI Series A common stock and 1,498,154 shares of LMI Series B common stock were issued to our and Liberty's employees at exercise prices of \$33.92 and \$37.88, respectively, pursuant to the LMI Transitional Stock Adjustment Plan (the Transitional Plan). Such options have remaining terms and vesting provisions equivalent to those of the respective Liberty stock incentive awards that were adjusted. At the spin off date, such options to purchase shares of LMI Series A common stock had a remaining weighted average term of 7.03 years and a remaining weighted average vesting period of 1.76 years. Options to purchase shares of LMI Series B common stock had a remaining weighted average term of 6.73 years and a remaining weighted average vesting period of 1.73 years. Subsequent to the spin off, options to acquire an aggregate of 438,054 shares of LMI Series A common stock were issued to our employees pursuant to the Liberty Media International, Inc. 2004 Incentive Plan (LMI 2004 Incentive Plan) at a weighted average exercise price of \$33.45 per share. In addition, 22,152 shares of LMI Series A common stock were issued to our non-employee directors pursuant to the Liberty Media International, Inc. 2004 Non-employee Director Incentive Plan (LMI 2004 Directors Incentive Plan) at a weighted average exercise price of \$33.95 per share. The employee stock options will vest at the rate of 20% per year on each anniversary of the grant date. The non-employee director stock options will vest on the first anniversary of the grant date. All stock options granted in 2004 expire ten years after the grant date.

In 2004, LMI entered into an option agreement with John C. Malone, LMI's Chairman of the Board, Chief Executive Officer and President, pursuant to which LMI granted to Mr. Malone, under the LMI 2004 Incentive Plan, options to acquire 1,568,562 shares of LMI Series B common stock at an exercise price per share of \$36.75. The options are fully exercisable; however, Mr. Malone's rights with respect to the options and any shares issued upon exercise will vest at the rate of 20% per year on each anniversary of the Spin Off Date, provided that Mr. Malone continues to have a qualifying relationship (whether as a director, officer, employee or consultant) with LMI or any successor to LMI. (Liberty Global would be the successor to LMI under the option agreement.) If Mr. Malone ceases to have such a qualifying relationship (subject to certain exceptions for his death or disability or termination without cause), his unvested options will be terminated and/or LMI will have the right to require Mr. Malone to sell to LMI, at the exercise price of the options, any shares of LMI Series B common stock previously acquired by Mr. Malone upon exercise of options which have not vested as of the date on which Mr. Malone ceases to have a qualifying relationship with LMI.

The LMI 2004 Incentive Plan is administered by the compensation committee of our board of directors. The compensation committee of our board has full power and authority to grant eligible persons the awards described below and determine the terms and conditions under which any awards are made. The incentive plan is designed to provide additional remuneration to certain employees and independent contractors for exceptional service and to encourage their investment in our company. The compensation committee may grant non-qualified stock options, stock appreciation rights (SARs), restricted shares, stock units, cash awards, performance awards or any combination of the foregoing under the incentive plan (collectively, awards).

The maximum number of shares of LMI common stock with respect to which awards may be issued under the incentive plan is 20 million, subject to anti-dilution and other adjustment provisions of the LMI 2004 Incentive Plan. With limited exceptions, no person may be granted in any calendar year awards covering more than 2 million shares of our common stock. In addition, no person may receive payment for cash awards during any calendar year in excess of \$10 million. Shares of our common stock issuable pursuant to awards made under the incentive plan are made available from either authorized but unissued shares or shares that have been issued but reacquired by our company. The LMI 2004 Directors Incentive Plan is designed to provide a method whereby non-employee directors may be awarded additional remuneration for the services they render on our board and committees of our board, and to encourage their investment in capital stock of our company. The LMI 2004 Directors Incentive Plan is administered by our full board of directors. Our board has the full power and authority to grant eligible non-employee directors the

awards described below and determine the terms and conditions under which any awards are made, and may delegate certain administrative duties to our employees.  
Our board may grant non-qualified stock options, stock appreciation rights, restricted shares, stock units or any combination of the foregoing under the director plan (collectively, awards). Only non-employee members of our board

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of directors are eligible to receive awards under the LMI 2004 Directors Incentive Plan. The maximum number of shares of our common stock with respect to which awards may be issued under the director plan is 5 million, subject to anti-dilution and other adjustment provisions of the LMI 2004 Directors Incentive Plan. Shares of our common stock issuable pursuant to awards made under the LMI 2004 Directors Incentive Plan will be made available from either authorized but unissued shares or shares that have been issued but reacquired by our company.

A summary of stock option activity in 2004 is as follows:

|   | LMI 2004<br>Incentive Plan |  | LMI 2004<br>Directors<br>Incentive Plan |  | Transitional Plan |  | Total     |  |
|---|----------------------------|--|---|--|-------------------|--|-----------|--|
|   | Number                     | Weighted<br>average<br>exercise<br>price | Number                                  | Weighted<br>average<br>exercise<br>price | Number            | Weighted<br>average<br>exercise<br>price | Number    | Weighted<br>average<br>exercise<br>price |
| Outstanding at January 1, 2004  |                            | NA                                       |   | NA                                       |                   | NA                                       |           | NA                                       |
| Issued in connection with the<br>spin-off and related adjustments<br>to Liberty's stock incentive<br>awards |                            | NA                                       |   | NA                                       | 1,595,709         | \$ 33.92                                 | 1,595,709 | \$ 33.92                                 |
| Granted   | 438,054                    | \$ 33.45                                 | 22,152                                  | \$ 33.95                                 |                   | NA                                       | 460,206   | \$ 33.47                                 |
| Canceled  |                            | NA                                       |   | NA                                       | (892)             | \$ 33.92                                 | (892)     | \$ 33.92                                 |
| Exercised   |                            | NA                                       |   | NA                                       | (353,485)         | \$ 33.92                                 | (353,485) | \$ 33.92                                 |
| Outstanding at December 31,<br>2004   | 438,054                    | \$ 33.45                                 | 22,152                                  | \$ 33.95                                 | 1,241,332         | \$ 33.92                                 | 1,701,538 | \$ 33.82                                 |
| Exercisable at December 31,<br>2004   |                            | NA                                       |   | NA                                       | 794,245           | \$ 33.92                                 | 794,245   | \$ 33.92                                 |

|  | LMI 2004 Incentive<br>Plan |  | Transitional Plan |  | Total     |  |
|--|----------------------------|--|-------------------|--|-----------|--|
|  | Number                     | Weighted<br>average<br>exercise<br>price | Number            | Weighted<br>average<br>exercise<br>price | Number    | Weighted<br>average<br>exercise<br>price |
| Outstanding at January 1, 2004   |                            | NA                                       |                   | NA                                       |           | NA                                       |
| Issued in connection with the<br>spin-off and related adjustments to<br>Liberty's stock incentive awards |                            | NA                                       | 1,498,154         | \$ 37.88                                 | 1,498,154 | \$ 37.88                                 |

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|                                  |              |          |           |          |           |          |
|----------------------------------|--------------|----------|-----------|----------|-----------|----------|
| Granted                          | 1,568,562    | \$ 36.75 |           | NA       | 1,568,562 | \$ 36.75 |
| Canceled                         |              | NA       |           | NA       |           | NA       |
| Exercised                        |              | NA       |           | NA       |           | NA       |
| Outstanding at December 31, 2004 | 1,568,562    | \$ 36.75 | 1,498,154 | \$ 37.88 | 3,066,716 | \$ 37.30 |
| Exercisable at December 31, 2004 | 1,568,562(1) | \$ 36.75 | 973,800   | \$ 37.88 | 2,542,362 | \$ 37.18 |

(1) Amount represents Mr. Malone's options that are fully exercisable, but not vested as of December 31, 2004. The options or shares issued upon exercise vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone meets certain conditions regarding his relationship with LMI. See discussion above.

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The following table summarizes information about our stock options outstanding and exercisable at December 31, 2004:

| Exercise price range             | Options outstanding |   |                                 | Options exercisable |                                 |
|----------------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                                  | Number              | Weighted average remaining contractual life (years) | Weighted average exercise price | Number              | Weighted average exercise price |
| <b>LMI Series A common stock</b> |                     |   |                                 |                     |                                 |
| \$33.41                          | 453,206             | 9.47  | \$ 33.41                        |                     | \$ 33.41                        |
| \$33.92                          | 1,241,332           | 6.60  | \$ 33.92                        | 794,245             | \$ 33.92                        |
| \$37.42                          | 7,000               | 9.86  | \$ 37.42                        |                     | \$ 37.42                        |
|                                  | 1,701,538           | 7.38  | \$ 33.82                        | 794,245             | \$ 33.92                        |
| <b>LMI Series B common stock</b> |                     |   |                                 |                     |                                 |
| \$36.75                          | 1,568,562           | 9.47  | \$ 36.75                        | 1,568,562(1)        | \$ 36.75                        |
| \$37.88                          | 1,498,154           | 6.16  | \$ 37.88                        | 973,800             | \$ 37.88                        |
|                                  | 3,066,716           | 7.86  | \$ 37.30                        | 2,542,362           | \$ 37.18                        |

(1) Amount represents Mr. Malone's options that are fully exercisable, but not vested as of December 31, 2004. The options or shares issued upon exercise vest at the rate of 20% per year on each anniversary of the date on which the spin off was completed (which was June 7, 2004), provided that Mr. Malone meets certain conditions regarding his relationship with LMI. See discussion above.

The fair value of options granted pursuant to the LMI 2004 Incentive Plan and the LMI 2004 Directors Incentive Plan in 2004 has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

|                         |         |
|-------------------------|---------|
| Risk-free interest rate | 4.09%   |
| Expected lives          | 6 years |
| Expected volatility     | 25%     |
| Expected dividend yield | 0%      |

Based on the above assumptions, the total fair value of options granted under the LMI 2004 Incentive Plan and the LMI 2004 Directors Incentive Plan during 2004 was \$24,872,000. The weighted average fair value per share of LMI

Series A and B options granted in 2004 was \$11.39 and \$12.51, respectively. All such options' exercise prices were equal to their market prices at the date of grant, except for the exercise price for 1,568,562 LMI Series B options granted in June 2004. The exercise price for these options was equal to 110% of the market price of the LMI Series A common stock on June 22, 2004 (\$39.10 before considering the impact of the LMI Rights Offering), the date that definitive terms were established for such options. The closing market price of the LMI Series B common stock on that date was \$40.05 (before considering the impact of the LMI Rights Offering).

*Junior Stock Plan*

In April 2000, four individuals, including two of our executive officers and one of our directors, purchased a 20% common stock interest in Liberty Jupiter, Inc., which owned an approximate 5.4% interest in J-COM at December 31, 2004. The individuals paid a total purchase price of \$800,000 for the 20% common stock interest. We, one of our subsidiaries and these individuals are parties to an amended and restated shareholders agreement under which the individuals can require us to purchase, after five years from the date of purchase, all or part of their common stock interest in exchange for LMI Series A common stock at its then-fair market value. The shareholders agreement also provides that, if an individual terminates his or her employment or consulting arrangement with us or with LMC within five years from the date of purchase, we have the right to purchase from that individual certain non-vested shares (currently equal to 25% of the common shares originally purchased by him or her) at the original purchase price plus

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6% per year. In addition, we have the right at any time to purchase, in exchange for LMI Series A common stock, the common stock interests of the individuals at fair market value. Compensation charges (credits) with respect to the interests held by the aforementioned executive officers and directors were \$6,318,000, \$1,164,000 and \$(113,000) in 2004, 2003 and 2002, respectively.

**UGC***UGC Equity Incentive Plan*

In August 2003 UGC's board of directors (the UGC Board) adopted an equity incentive plan (the UGC Incentive Plan). UGC's stockholders approved the UGC Incentive Plan, which was effective as of September 1, 2003 and will terminate on August 31, 2013. The UGC Incentive Plan permits the grant of stock options, restricted stock awards, SARs, stock bonuses, stock units, and other grants of stock (collectively, the UGC Awards) covering up to 59,000,000 shares, as amended, of UGC Class A or Class B common stock. The number of shares increases on January 1 of each calendar year (beginning with calendar year 2004) during the duration of the UGC Incentive Plan by 1% of the aggregate number of shares of UGC Class A and Class B common stock outstanding on December 31 of the immediately preceding calendar year. No more than 5,000,000 shares of UGC Class A and Class B common stock in the aggregate may be granted to a single participant during any calendar year, and no more than 3,000,000 shares may be issued under the UGC Incentive Plan as UGC Class B common stock. Employees, consultants, and other non-employee directors of UGC and affiliated entities designated by the UGC Board may receive UGC Awards under the UGC Incentive Plan, provided, however, that incentive stock options may not be granted to consultants or non-employee directors.

The UGC Incentive Plan is generally administered by the compensation committee of the UGC Board, which has the discretion to determine the employees and consultants to whom the UGC Awards are granted, the number and type of shares subject to the UGC Awards, the exercise price of the UGC Awards (which may be at, below, or above the fair market value of UGC Class A or Class B common stock on the date of grant), the period over which the UGC Awards vest, the term of the UGC Awards, and certain other provisions relating to the UGC Awards. The compensation committee of the UGC Board may, under certain circumstances, delegate to officers of UGC the authority to grant UGC Awards to specified groups of employees and consultants. The UGC Board has the sole authority to grant UGC Awards under the UGC Incentive Plan to non-employee directors.

As a result of the dilution caused by UGC's subscription rights offering in February 2004, the exercise or base prices of all awards outstanding pursuant to the UGC Incentive Plan were reduced by \$0.87.

A summary of activity for the UGC Incentive Plan options, restricted stock and SARs for the year ended December 31, 2004 is as follows:

|                          | Options(1)              |                                 | Restricted stock(1)               |                              | SARs(1)        |                             |
|--------------------------|-------------------------|---------------------------------|-----------------------------------|------------------------------|----------------|-----------------------------|
|                          | Number of stock options | Weighted average exercise price | Number of restricted stock awards | Weighted average stock price | Number of SARs | Weighted average base price |
| Outstanding at January 1 |                         | \$                              |                                   | \$                           | 32,087,270     | \$ 3.82                     |
| Granted                  | 4,780,000               | \$ 7.72                         | 224,587                           | \$ 8.24                      | 5,062,138      | \$ 7.31                     |
| Canceled                 | (80,000)                | \$ 7.48                         |                                   | \$                           | (1,851,904)    | \$ 4.39                     |

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|                               |           |    |      |         |             |      |            |    |      |
|-------------------------------|-----------|----|------|---------|-------------|------|------------|----|------|
| Exercised                     |           | \$ |      | \$      | (5,215,510) | \$   | 3.66       |    |      |
| Outstanding at<br>December 31 | 4,700,000 | \$ | 7.72 | 224,587 | \$          | 8.24 | 30,081,994 | \$ | 4.43 |
| Exercisable at<br>December 31 |           | \$ |      |         | \$          |      | 1,972,906  | \$ | 4.39 |

- (1) These UGC options and restricted stock awards vest over 5 years, with quarterly vesting beginning six months from date of grant. The UGC SARs that were outstanding at January 1, 2004 vest in 5 equal annual increments from the date of grant. The UGC SARs granted in 2004 vest over 5 years, with quarterly vesting beginning six months from the date of grant.

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The following table summarizes information about UGC options and restricted stock granted under the UGC Incentive Plan during the year ended December 31, 2004:

| Exercise/Stock price      | Options   |            |                | Restricted stock |            |                |
|---------------------------|-----------|------------|----------------|------------------|------------|----------------|
|                           | Number    | Fair value | Exercise price | Number           | Fair value | Exercise price |
| Less than market price    |           | \$         | \$             |                  | \$         | \$             |
| Equal to market price     | 4,780,000 | \$ 6.19    | \$ 7.72        | 224,587          | \$ 8.24    | \$ 8.24        |
| Greater than market price |           | \$         | \$             |                  | \$         | \$             |
| Total                     | 4,780,000 | \$ 6.19    | \$ 7.72        | 224,587          | \$ 8.24    | \$ 8.24        |

The weighted-average fair value and weighted-average base price of SARs granted under the UGC Incentive Plan in 2004 are as follows:

|                           | Base price | Number    | Fair value | Base price |
|---------------------------|------------|-----------|------------|------------|
| Less than market price(1) |            | 154,500   | \$ 4.57    | \$ 2.87    |
| Equal to market price     |            | 154,500   | \$ 8.31    | \$ 4.57    |
| Equal to market price     |            | 4,753,138 | \$ 6.02    | \$ 7.55    |
| Greater than market price |            |           | \$         | \$         |
| Total                     |            | 5,062,138 | \$ 6.17    | \$ 7.31    |

(1) UGC originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will only receive the difference between \$2.87 and the lesser of \$4.57 or the market price of UGC Class A common stock on the date of exercise.

The following summarizes information about UGC's options, SARs and restricted stock outstanding and exercisable as of December 31, 2004:

| Exercise price range | Number | Options outstanding                    |                                 | Options exercisable |                                 |
|----------------------|--------|--|---------------------------------|---------------------|---------------------------------|
|                      |        | Weighted average remaining contractual | Weighted average exercise price | Number              | Weighted average exercise price |

**life  
(years)**

|              |                  |             |                |           |
|--------------|------------------|-------------|----------------|-----------|
| \$7.48       | 3,215,000        | 9.84        | \$ 7.48        | \$        |
| \$8.24       | 1,485,000        | 9.90        | \$ 8.24        | \$        |
| <b>Total</b> | <b>4,700,000</b> | <b>9.86</b> | <b>\$ 7.72</b> | <b>\$</b> |

| Base price range | Number            | SARs outstanding                                    |                             | SARs exercisable |                             |
|------------------|-------------------|---|-----------------------------|------------------|-----------------------------|
|                  |                   | Weighted average remaining contractual life (years) | Weighted average base price | Number           | Weighted average base price |
| \$2.87           | 11,523,022        | 8.49  | \$ 2.87                     | 507,378          | \$ 2.87                     |
| \$4.57           | 12,084,784        | 8.37  | \$ 4.57                     | 1,069,140        | \$ 4.57                     |
| \$5.26-\$6.33    | 1,981,050         | 8.86  | \$ 5.38                     | 268,250          | \$ 5.26                     |
| \$7.10-\$8.24    | 4,493,138         | 9.83  | \$ 7.63                     | 128,138          | \$ 7.10                     |
| <b>Total</b>     | <b>30,081,994</b> | <b>8.67</b>   | <b>\$ 4.43</b>              | <b>1,972,906</b> | <b>\$ 4.39</b>              |

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| <b>Restricted stock outstanding</b> |               |  |   |
|-------------------------------------|---------------|--|---|
| <b>Base price range</b>             | <b>Number</b> | <b>Weighted<br/>average<br/>remaining<br/>contractual<br/>life<br/>(years)</b> | <b>Weighted<br/>average<br/>stock<br/>price</b> |
| \$8.24                              | 224,587       | 4.95   | \$ 8.24   |

A total of 11,523,022 SARs outstanding as of December 31, 2004 represent capped SARs, where the holder will only receive the difference between \$2.87 and the lesser of \$4.57 or the market price of UGC Class A common stock on the date of exercise.

*Fair Value of Grants in 2004.* The fair value of options granted pursuant to the UGC Incentive Plan in 2004 has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

|                         |         |
|-------------------------|---------|
| Risk-free interest rate | 3.61%   |
| Expected lives          | 6 years |
| Expected volatility     | 100%    |
| Expected dividend yield | 0%      |

Based on the above assumptions, the total fair value of options granted under the UGC Incentive Plan was \$29,580,000 in 2004.

*UGC Stock Option Plans*

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by UGC on January 30, 2002 (the UGC Employee Plan). The UGC Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of UGC Class A common stock, of which options for up to 3,000,000 shares of UGC Class B common stock were available to be granted in lieu of options for shares of UGC Class A common stock. The UGC Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the UGC Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the UGC Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. The UGC Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made. All options outstanding on January 5, 2004 pursuant to the UGC Employee Plan became fully vested as a result of the change of control due to the UGC Founders Transaction. As of December 31, 2004, 9,881,029 and 3,000,000 shares of UGC Class A common stock and UGC Class B common stock, respectively, were outstanding and exercisable pursuant to the UGC Employee Plan.

Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by UGC on January 30, 2002 (the UGC 1993 Director Plan). The UGC 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of UGC Class A common stock to each member of the UGC Board of Directors who was not also an employee of UGC (a UGC non-employee director) on June 1, 1993, and to each person who is newly elected to the UGC Board of Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by UGC on January 30, 2002 (the UGC 1998 Director Plan, and together with the UGC 1993 Director Plan, the UGC Director Plans). Options under the UGC 1998 Director Plan were granted at the discretion of UGC's Board of Directors. The maximum term of options granted under the UGC Director Plans was ten years. Effective March 14, 2003, the UGC Board of Directors terminated the UGC 1993 Director Plan. Options outstanding prior to the date of termination shall continue to be recognized, but no new grants of options will be made.

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A summary of stock option activity for the UGC Employee Plan and the UGC Director Plans in 2004 is as follows:

|                            | UGC Employee Plan |                                 | UGC Director Plans |                                 |
|----------------------------|-------------------|---------------------------------|--------------------|---------------------------------|
|                            | Number            | Weighted average exercise price | Number             | Weighted average exercise price |
| Outstanding at January 1   | 13,745,692        | \$ 7.49                         | 920,000            | \$ 10.66                        |
| Granted                    |                   | \$                              | 200,000            | \$ 5.94                         |
| Canceled                   | (247,586)         | \$ 14.63                        | (130,000)          | \$ 47.75                        |
| Exercised                  | (617,077)         | \$ 4.94                         | (260,000)          | \$ 3.94                         |
| Outstanding at December 31 | 12,881,029        | \$ 7.52                         | 730,000            | \$ 5.11                         |
| Exercisable at December 31 | 12,881,029        | \$ 7.52                         | 492,498            | \$ 5.01                         |

The combined weighted-average fair value and weighted-average exercise price of options granted under the UGC Employee Plan and the UGC Director Plans in 2004 are as follows:

| Exercise price            | Number  | Fair value | Exercise price |
|---------------------------|---------|------------|----------------|
| Less than market price    | 200,000 | \$ 7.22    | \$ 5.94        |
| Equal to market price     |         | \$         | \$             |
| Greater than market price |         | \$         | \$             |
| Total                     | 200,000 | \$ 7.22    | \$ 5.94        |

The following table summarizes information about the UGC Employee Plan and the UGC Director Plans stock options outstanding and exercisable as of December 31, 2004:

| Exercise price range | Options outstanding |   |                                 | Options exercisable |                                 |
|----------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                      | Number              | Weighted average remaining contractual life (years) | Weighted average exercise price | Number              | Weighted average exercise price |
| \$3.29-\$3.88        | 258,282             | 4.68  | \$ 3.44                         | 258,282             | \$ 3.44                         |

|                |                   |             |                |                   |                |
|----------------|-------------------|-------------|----------------|-------------------|----------------|
| \$4.13         | 10,426,709        | 6.71        | \$ 4.13        | 10,266,291        | \$ 4.13        |
| \$4.25-\$67.51 | 2,914,038         | 4.41        | \$ 19.08       | 2,836,954         | \$ 19.39       |
| \$85.63        | 12,000            | 5.23        | \$ 85.63       | 12,000            | \$ 85.63       |
| <b>Total</b>   | <b>13,611,029</b> | <b>6.17</b> | <b>\$ 7.39</b> | <b>13,373,527</b> | <b>\$ 7.43</b> |

*UPC Stock Option Plan.* UPC adopted a stock option plan on June 13, 1996, as amended (the UPC Plan), for certain of its employees and those of its subsidiaries. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, the UPC Plan was cancelled.

**(14) Related Party Transactions**

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. Interest expense accrued on the amounts borrowed pursuant to such notes payable was \$1,534,000 in 2004. In connection with the spin off, Liberty also entered into a Short-Term Credit Facility with our company. Pursuant to the Short-Term Credit Facility, Liberty had agreed to make loans to us from time to time up to an aggregate principal amount of \$383,334,000. Amounts borrowed under the Short-Term Credit Facility and the notes payable accrued interest at 6% per annum, compounded semi-annually, and were due and payable no later than March 31, 2005. During 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.

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For periods prior to the spin off, corporate expenses were allocated from Liberty to us based upon the cost of general and administrative services provided. We believe such allocations were reasonable and materially approximate the amount that we would have incurred on a stand-alone basis. Amounts allocated to us prior to the spin off pursuant to these arrangements aggregated \$10,833,000, \$10,873,000 and \$10,794,000 in 2004, 2003 and 2002, respectively. The 2004 amount includes costs associated with the spin off aggregating \$2,952,000. Pursuant to the Reorganization Agreement, we and Liberty each agreed to pay 50% of such spin off costs. Excluding our share of such spin off costs, the intercompany amounts owed to Liberty as a result of these allocations were contributed to our equity in connection with the spin off. The amounts allocated by Liberty are included in SG&A expenses in the accompanying consolidated statements of operations.

In connection with the spin off, we and Liberty entered into a Facilities and Services Agreement that sets forth the terms that apply to services and other benefits provided by Liberty to us following the spin off. Pursuant to the Facilities and Services Agreement, Liberty provides us with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. We reimburse Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for our allocable portion of facilities costs and costs associated with any shared services or personnel. Amounts charged to us pursuant to this agreement aggregated \$1,324,000 for the period from the Spin Off Date through December 31, 2004 and are included in SG&A expenses in the accompanying consolidated statements of operations.

Prior to the spin off, Liberty transferred to our company a 25% ownership interest in two of Liberty's aircraft. In connection with the transfer, we and Liberty entered into certain agreements pursuant to which, among other things, we and Liberty share the costs of Liberty's flight department and the costs of maintaining and operating the jointly owned aircraft. Costs are allocated based upon either our actual usage or our ownership interest, depending on the type of costs. Amounts charged to us pursuant to these agreements aggregated \$230,000 for the period from the Spin Off Date through December 31, 2004 and are included in SG&A expenses in the accompanying consolidated statements of operations.

Other agreements between our company and Liberty that were entered into in connection with the spin off are described in note 2 (the Reorganization Agreement) and note 11 (the Tax Sharing Agreement).

At December 31, 2004, John C. Malone beneficially owned shares of Liberty common stock representing approximately 29.7% of Liberty's voting power and beneficially owned shares of LMI common stock which may represent up to approximately 33.2% of the voting power in our company, assuming the exercise in full of certain options to acquire shares of LMI Series B common stock granted to Mr. Malone at the time of the spin off. In addition, six of our eight directors are also directors of Liberty. By virtue of Mr. Malone's voting power in Liberty and our company, as well as his position as Chairman of the Board of Liberty and positions as Chairman of the Board, President and Chief Executive Officer of our company, and the aforementioned common directors, Liberty may be deemed an affiliate of our company.

Certain key employees of our company hold stock options and options with tandem SARs with respect to certain common stock of Liberty. For additional information, see note 3.

In the normal course of business, Pramer provides programming and uplink services to equity method affiliates of LMI. Total revenue for such services from the LMI affiliates aggregated \$195,000, \$862,000 and \$569,000 in 2004, 2003 and 2002, respectively.

In the normal course of business, Liberty Cablevision Puerto Rico purchases programming services from subsidiaries of Liberty. In 2004, 2003 and 2002, the charges for such services aggregated \$2,053,000, \$1,867,000 and \$632,000, respectively.

In 2004, 2003 and 2002, we recognized income from guarantee fees charged to J-COM aggregating \$641,000, \$244,000 and \$3,420,000, respectively. See note 19.

During 2004, 2003 and 2002, we recognized interest income from equity method affiliates (including J-COM in all periods and UGC in 2003 and 2002) and other related parties aggregating \$11,166,000, \$18,180,000 and \$17,864,000, respectively. See note 6.

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UGC's 2004 related party revenue was \$7,982,000, which consisted primarily of management, advisory and license fees, call center charges and uplink services. UGC's 2004 related party operating expenses were \$15,325,000, which consisted primarily of programming costs and interconnect fees.

In addition, in 2002 we recognized \$1,891,000 of aggregate interest expense on indebtedness owed to UGC and its subsidiaries.

**(15) Transactions with Officers and Directors**

***VLG Acquisition Corp.***

Prior to March 2, 2005, Liberty owned a 78.2% economic and non-voting interest in VLG Argentina LLC (VLG Argentina), an entity that owns a 50% interest in Cablevisión. VLG Acquisition Corp. (VLG Acquisition), an entity in which neither Liberty nor our company has any ownership interests, owned the remaining 21.8% economic interest and all of the voting power in VLG Argentina LLC. An executive officer and an officer of our company were shareholders of VLG Acquisition. Prior to joining our company, they sold their equity interests in VLG Acquisition to the remaining shareholder, but each retained a contractual right to 33% of any proceeds in excess of \$100,000 from the sale of VLG Acquisition Corp.'s interest in VLG Argentina, or from distributions to VLG Acquisition Corp. by VLG Argentina in connection with a sale of VLG Argentina's interest in Cablevisión. Although we have no direct or indirect equity interest in Cablevisión, we had the right and obligation pursuant to Cablevisión's debt restructuring agreement to contribute \$27,500,000 to Cablevisión in exchange for newly issued Cablevisión shares representing approximately 40.0% of Cablevisión's fully diluted equity (the Subscription Right).

On November 2, 2004, Liberty, VLG Acquisition, VLG Argentina, a subsidiary of our company and the then sole shareholder of VLG Acquisition entered into an agreement with a third party to transfer all of the equity in VLG Argentina and all of our rights and obligations with respect to the Subscription Right to the third party for aggregate consideration of \$65 million. This agreement provided that \$40,527,000 of such proceeds would be allocated to our company for the Subscription Right. We received 50% of such proceeds as a down payment in November 2004 and we received the remainder in March 2005. We will recognize a gain of \$40,527,000 during the first quarter of 2005 in connection with the closing of this transaction.

As a result of the foregoing transactions, the executive officer and officer of our company who retained the above-described contractual rights with respect to VLG Acquisition received aggregate cash distributions of \$7.3 million in respect of such rights during the fourth quarter of 2004 and the first quarter of 2005.

**(16) Reorganization of Old UGC**

Old UGC is a wholly owned subsidiary of UGC that owns VTR and an approximate 34% interest in Austar United Communications Ltd. Certain information concerning the consolidated operating performance and total assets of VTR are set forth in note 20.

On January 12, 2004, Old UGC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. 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. The plan of reorganization provided for the acquisition by Old UGC of \$638,008,000 face amount of certain senior notes of Old UGC (Old UGC Senior Notes) held by UGC (following cancellation of certain offsetting obligations) for common stock of Old UGC and \$599,173,000 face amount of Old UGC Senior Notes held by IDT United, another consolidated subsidiary of UGC for preferred stock of Old UGC. Old UGC Senior Notes held by third parties (\$24,627,000 face amount) would be left outstanding (after cure, through the repayment of approximately \$5,073,000 in unpaid interest, and reinstatement). In addition, Old UGC would make a payment of approximately \$3,114,000 in settlement of certain outstanding guarantee obligations. The Bankruptcy Court confirmed the plan of reorganization on November 10, 2004. Following an appeal period, the plan of reorganization was consummated on November 24, 2004.

On November 24, 2004, immediately following the consummation of the plan of reorganization, UGC executed a stock purchase agreement with two shareholders of IDT United whereby UGC acquired all of the remaining capital stock of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

IDT United not previously owned by UGC for approximately \$22,711,000 in cash. As a result of this transaction, IDT United became UGC's wholly owned subsidiary.

In connection with the Old UGC Reorganization, a total of \$24,627,000 was deposited into an escrow account for the purpose of repayment of the Old UGC Senior Notes. On February 15, 2005, the Old UGC Senior Notes 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.

**(17) Restructuring and Other Charges****Restructuring Charges**

A summary of UGC's restructuring charge activity in 2004 is set forth in the table below:

|  | <b>Employee<br/>severance<br/>and<br/>termination</b> | <b>Office<br/>closures</b> | <b>Programming<br/>and lease<br/>contract<br/>termination</b> | <b>Other</b> | <b>Total</b> |
|--|---|----------------------------|---|--------------|--------------|
| <b>amounts in thousands</b>                        |   |                            |   |              |              |
| Restructuring liability as of<br>January 1, 2004   | \$ 8,405  | 16,821                     | 34,399  | 2,442        | 62,067       |
| Restructuring charges                              | 8,176   | 16,862                     |   | 794          | 25,832       |
| Cash paid  | (6,938)   | (5,741)                    | (7,566)   | (1,057)      | (21,302)     |
| Foreign currency translation<br>adjustments        | 980   | 1,983                      | 3,695   | (657)        | 6,001        |
| Restructuring liability as of<br>December 31, 2004 | \$ 10,623   | 29,925                     | 30,528  | 1,522        | 72,598       |
| Short-term portion                                 | \$ 4,973  | 5,271                      | 3,817   | 345          | 14,406       |
| Long-term portion                                  | 5,650   | 24,654                     | 26,711  | 1,177        | 58,192       |
| Total  | \$ 10,623   | 29,925                     | 30,528  | 1,522        | 72,598       |

In May and September 2004, UGC's Netherlands operations recorded an aggregate charge of \$5,690,000 for severance benefits as a result of a restructuring plan to change its management structure from a three-region model to a centralized management organization, eliminating certain redundancies and vacating space under an office lease. In December 2004, UGC's Netherlands operations changed its estimate regarding the timing and amount of sub-lease income related to a restructuring plan that was finalized in 2001. While the office space under lease remains vacated, UGC has been unable to sub-lease this space and cannot predict that it will be able to for the foreseeable future. Accordingly, the restructuring liability has been adjusted by approximately \$15,970,000 to reflect UGC's best estimate regarding future sub-lease income for the vacated property. The remaining \$4,172,000 of restructuring charges in 2004 related to various redundancy eliminations and other streamlining efforts at chellomedia BV (chellomedia) an indirect wholly owned subsidiary of UGC, and Priority Telecom.

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**Other Charges**

In January 2004, UGC's Chief Executive Officer resigned and received certain benefits totaling \$3,186,000.

**(18) Other Comprehensive Earnings (Loss)**

Accumulated other comprehensive earnings (loss) included in our company's consolidated balance sheets and statements of stockholders' equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on securities classified as available-for-sale. The change in the components of accumulated other comprehensive earnings (loss), net of taxes, is summarized as follows:

|   | <b>Foreign<br/>currency<br/>translation<br/>adjustment</b> | <b>Unrealized<br/>gains (losses)<br/>on securities</b> | <b>Other<br/>comprehensive<br/>earnings (loss)</b> |
|---|--|--|--|
| <b>amounts in thousands</b>   |  |  |  |
| Balance at January 1, 2002  | \$ (102,988)   | (30,400)   | (133,388)  |
| Other comprehensive earnings (loss)                                   | (173,715)  | 46,649   | (127,066)  |
| Balance at December 31, 2002  | (276,703)  | 16,249   | (260,454)  |
| Other comprehensive earnings  | 102,294  | 111,594  | 213,888  |
| Balance at December 31, 2003  | (174,409)  | 127,843  | (46,566)   |
| Other comprehensive earnings (loss)                                   | 129,141  | (122,292)  | 6,849  |
| Effect of change in estimated blended state income tax rate (note 11) | 2,222  | 523  | 2,745  |
| Spin off transaction (note 2)   |  | 50,982   | 50,982   |
| Balance at December 31, 2004  | \$ (43,046)  | 57,056   | 14,010   |

The components of other comprehensive earnings (loss) are reflected in our company's consolidated statements of comprehensive earnings (loss), net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings (loss):

|   | <b>Before-tax<br/>amount</b> | <b>Tax<br/>benefit<br/>(expense)</b> | <b>Net-of-tax<br/>amount</b> |
|---|------------------------------|--------------------------------------|------------------------------|
| <b>amounts in thousands</b>   |                              |                                      |                              |
| <b>Year ended December 31, 2004:</b>                                  |                              |                                      |                              |
| Foreign currency translation adjustments                              | \$ 204,392                   | (75,251)                             | 129,141                      |
| Unrealized holding losses arising during period                       | (189,465)                    | 67,173                               | (122,292)                    |
| Effect of change in estimated blended state income tax rate (note 11) |                              | 2,745                                | 2,745                        |



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|  |    |           |           |           |
|--|----|-----------|-----------|-----------|
| Other comprehensive earnings                   | \$ | 14,927    | (5,333)   | 9,594     |
| Year ended December 31, 2003:                  |    |           |           |           |
| Foreign currency translation adjustments       | \$ | 168,239   | (65,945)  | 102,294   |
| Unrealized holding gains arising during period |    | 182,941   | (71,347)  | 111,594   |
| Other comprehensive earnings                   | \$ | 351,180   | (137,292) | 213,888   |
| Year ended December 31, 2002:                  |    |           |           |           |
| Foreign currency translation adjustments       | \$ | (284,779) | 111,064   | (173,715) |
| Unrealized holding gains arising during period |    | 76,474    | (29,825)  | 46,649    |
| Other comprehensive loss                       | \$ | (208,305) | 81,239    | (127,066) |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)****(19) Commitments and Contingencies*****Commitments***

In the normal course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancelable leases, programming contracts, purchases of customer premise equipment, construction activities, network maintenance, and upgrade and other commitments arising from our agreements with local franchise authorities. As of December 31, 2004, the U.S. dollar equivalent (based on December 31, 2004 exchange rates) of such commitments is as follows:

|                            | <b>Payments due during years ended December 31,</b> |             |             |             |             |                   |              |
|----------------------------|---|-------------|-------------|-------------|-------------|-------------------|--------------|
|                            | <b>2005</b>   | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>Thereafter</b> | <b>Total</b> |
|                            | <b>amounts in thousands</b>                         |             |             |             |             |                   |              |
| Operating Leases           | \$ 101,440  | 74,519      | 68,111      | 49,892      | 44,919      | 124,092           | 462,973      |
| Purchase obligations:      |   |             |             |             |             |                   |              |
| Programming                | 95,911  | 23,877      | 10,304      | 6,191       | 2,647       | 17,086            | 156,016      |
| Other                      | 22,717  | 1,957       |             |             |             |                   | 24,674       |
| Other commitments          | 53,697  | 9,753       | 5,883       | 3,953       | 3,972       | 14,313            | 91,571       |
| Total contractual payments | \$ 273,765  | 110,106     | 84,298      | 60,036      | 51,538      | 155,491           | 735,234      |

Rental costs under non-cancelable lease arrangements amounted to \$88,588,000, \$2,934,000 and \$1,701,000 in 2004, 2003 and 2002, respectively. It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by similar leases.

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.

***Contingent Obligations***

Various partnerships and other affiliates of our company accounted for using the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash

provided by their operating activities. Notwithstanding the foregoing, certain of our affiliates may require additional capital to finance their operating or investing activities. In addition, we are a party to stockholder and partnership agreements that provide for possible capital calls on stockholders and partners. In the event our affiliates require additional financing and we fail to meet a capital call, or other commitment to provide capital or loans to a particular company, such failure may have adverse consequences to our company. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us.

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**December 31, 2004, 2003 and 2002 (Continued)**

In addition to the foregoing, the agreement governing our investment in Mediatti contains a put-call arrangement whereby we could be required to purchase another investor's ownership interest at fair value. We have similar put-call arrangements with the minority shareholders of Belgium Cable Investors and Zone Vision. For additional information concerning these contingent obligations, see notes 6 and 22.

For a description of certain put obligations that we assumed in connection with the Noos acquisition, see note 5. We and UGC have entered into indemnification agreements with each of our respective directors, our respective named executive officers and certain other officers. Pursuant to such agreements and as permitted by our and UGC's Bylaws, we each will indemnify our respective indemnities to the fullest extent permitted by law against any and all expenses, judgments, fines, penalties and settlements incurred as a result of being a party or threatened to be a party in a legal proceeding as a result of their service to or on behalf of our company or UGC, as applicable.

***Guarantees and Other Credit Enhancements***

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 Liberty is required to fund under these arrangements.

In the ordinary course of business, we have provided indemnifications to (i) purchasers of certain of our assets, (ii) our lenders, (iii) our vendors and (iv) other parties. In addition, we have provided performance and/or financial guarantees to 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.

***Legal Proceedings***

We have contingent liabilities related to legal 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 our opinion, 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.

*Cignal.* On April 26, 2002, UPC received a notice that certain former shareholders of Cignal Global Communications (Cignal) filed a lawsuit against UPC in the District Court of 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 in the Denver District Court, State of Colorado, all purportedly on behalf of UGC's public stockholders, regarding the announcement on January 18, 2005 of the execution by UGC and 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 our company. 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's stock and an award

of attorney s fees to plaintiffs counsel. On February 11, 2005, the Delaware Court of Chancery consolidated the  
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**December 31, 2004, 2003 and 2002 (Continued)**

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.

*The Netherlands 2004 Rate Increases.* The Dutch competition authority (NMA) is currently investigating the price increases that UGC made with respect to its video services in 2004 to determine whether it abused its 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 UGC's 2003 video revenue in The Netherlands and UGC would be obliged to reconsider the price increases. Historically, in many parts of The Netherlands, UGC is a party to contracts with local municipalities that seek to control aspects of its 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 UGC's attempts to move away from the contracts.

We and UGC operate in numerous countries around the world and accordingly we are subject to, and pay annual income taxes under, the various income tax regimes in the countries in which we operate. We have historically filed, and continue to file, all required income tax returns and pay income taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time we may be subject to a review of our historic income tax filings. In connection with such reviews, disputes could arise with the taxing authorities over the interpretation or application of certain income tax rules related to our business in that tax jurisdiction. We have accrued income taxes (and related interest and penalties, if applicable) for amounts that represent income tax exposure items in tax years for which additional income taxes may be assessed.

**(20) Information About Operating Segments**

We own a variety of international subsidiaries and investments that provide broadband distribution services and video programming services. We identify our reportable segments as (i) those consolidated subsidiaries that represent 10% or more of our revenue, operating cash flow (as defined below), or total assets, and (ii) those equity method affiliates where our investment or share of operating cash flow represents 10% or more of our total assets or operating cash flow, respectively. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and operating cash flow. In addition, we review non-financial measures such as subscriber growth and penetration, as appropriate.

Operating cash flow is the primary measure used by our chief operating decision makers 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 selling, general and administrative 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. A reconciliation of total consolidated operating cash flow to our consolidated pre-tax earnings (loss) is presented below. 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.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

For 2004 we have identified the following consolidated subsidiaries and equity method affiliates as our reportable segments:

|                    |                 |
|--------------------|-----------------|
| UGC Broadband      | The Netherlands |
| UGC Broadband      | France          |
| UGC Broadband      | Austria         |
| UGC Broadband      | Other Europe    |
| UGC Broadband      | Chile (VTR)     |
| Super Media/ J-COM |                 |

UGC, a majority-owned subsidiary of our company, is an international broadband communications provider of video, voice, and Internet services with operations in 16 countries. UGC's operations are located primarily in Europe and Latin America. UGC Broadband - The Netherlands, UGC Broadband - France and UGC Broadband - Austria represent UGC's three largest operating segments in Europe in terms of revenue. UGC Broadband - Other Europe includes broadband operations in Norway, Sweden, Belgium, Ireland, Hungary, Poland, Czech Republic, Slovak Republic, Slovenia and Romania. None of the components of UGC Broadband - Other Europe constitute a reportable segment. UGC Broadband - Chile (VTR) represents UGC's operating segment in Latin America. J-COM provides broadband communication services in Japan. Prior to the December 28, 2004 transaction in which our 45.45% ownership interest in J-COM and a 19.78% interest in J-COM owned by Sumitomo were combined in Super Media, we accounted for J-COM using the equity method of accounting. 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. 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. For additional information concerning J-COM and Super Media, see note 6.

The amounts presented below represent 100% of each business' revenue and operating cash flow. These amounts are combined and are then adjusted to remove the amounts related to UGC during the 2003 and 2002 periods and J-COM during all periods to arrive at the reported consolidated amounts. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with GAAP since the results of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate:

**Performance Measures**

|                 | Year ended December 31, |                     |         |                     |         |                     |
|-----------------|-------------------------|---------------------|---------|---------------------|---------|---------------------|
|                 | 2004                    |                     | 2003    |                     | 2002    |                     |
|                 | Revenue                 | Operating cash flow | Revenue | Operating cash flow | Revenue | Operating cash flow |
|                 | amounts in thousands    |                     |         |                     |         |                     |
| UGC Broadband   |                         |                     |         |                     |         |                     |
| The Netherlands | \$ 716,932              | 361,265             | 592,223 | 267,075             | 459,044 | 119,329             |
|                 | 312,792                 | 53,690              | 113,946 | 13,920              | 92,441  | (10,446)            |



|                                     |                     |                |                |               |                |               |
|-------------------------------------|---------------------|----------------|----------------|---------------|----------------|---------------|
| UGC Broadband<br>France             |                     |                |                |               |                |               |
| UGC Broadband<br>Austria            | 299,874             | 111,950        | 260,162        | 98,278        | 198,189        | 64,662        |
| UGC Broadband<br>Other Europe       | 752,900             | 281,398        | 561,737        | 203,495       | 461,149        | 131,882       |
| UGC Broadband<br>Chile (VTR)        | 299,951             | 108,752        | 229,835        | 69,951        | 186,426        | 41,959        |
| J-COM                               | 1,504,709           | 589,597        | 1,233,492      | 428,318       | 930,736        | 211,146       |
| Corporate and all<br>other          | 261,835             | (28,907)       | 242,017        | (6,090)       | 218,027        | (36,957)      |
| Elimination of equity<br>affiliates | (1,504,709)         | (589,597)      | (3,125,022)    | (1,057,200)   | (2,445,757)    | (507,520)     |
| <b>Total consolidated<br/>LMI</b>   | <b>\$ 2,644,284</b> | <b>888,148</b> | <b>108,390</b> | <b>17,747</b> | <b>100,255</b> | <b>14,055</b> |

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|                                     | Investments in affiliates   |                  | Long-lived assets |               | Total assets      |                  |
|-------------------------------------|-----------------------------|------------------|-------------------|---------------|-------------------|------------------|
|                                     | December 31,                |                  | December 31,      |               | December 31,      |                  |
|                                     | 2004                        | 2003             | 2004              | 2003          | 2004              | 2003             |
|                                     | <b>amounts in thousands</b> |                  |                   |               |                   |                  |
| UGC Broadband<br>The Netherlands    | \$                          | 222              | 1,099,118         | 1,334,294     | 2,024,365         | 2,458,724        |
| UGC Broadband<br>France             |                             |                  | 1,065,874         | 246,307       | 1,198,372         | 274,180          |
| UGC Broadband<br>Austria            |                             |                  | 302,820           | 307,758       | 827,506           | 700,209          |
| UGC Broadband<br>Other Europe       | 11,797                      | 16,757           | 1,026,989         | 873,221       | 1,832,761         | 1,845,202        |
| UGC Broadband<br>Chile (VTR)        |                             |                  | 351,314           | 322,606       | 682,270           | 602,762          |
| Super Media/J-COM                   | 36,846                      | 26,027           | 2,441,196         | 2,274,632     | 4,289,536         | 3,929,190        |
| Corporate and all<br>other          | 1,853,845                   | 1,818,811        | 456,984           | 356,134       | 7,137,089         | 4,905,631        |
| Elimination of equity<br>affiliates | (36,846)                    | (121,265)        | (2,441,196)       | (5,617,375)   | (4,289,536)       | (11,028,861)     |
| <b>Total consolidated<br/>LMI</b>   | <b>\$ 1,865,642</b>         | <b>1,740,552</b> | <b>4,303,099</b>  | <b>97,577</b> | <b>13,702,363</b> | <b>3,687,037</b> |

The following table provides a reconciliation of total segment operating cash flow to earnings (loss) before income taxes and minority interests:

|  | <b>Year ended December 31,</b>   |             |              |
|--|----------------------------------|-------------|--------------|
|  | <b>2004</b>                      | <b>2003</b> | <b>2002</b>  |
|  | <b>as restated<br/>(note 23)</b> |             |              |
|  | <b>amounts in thousands</b>      |             |              |
| Total segment operating cash flow          | \$ 888,148                       | 17,747      | 14,055       |
| Stock-based compensation credits (charges) | (142,762)                        | (4,088)     | 5,815        |
| Depreciation and amortization              | (960,888)                        | (15,114)    | (13,087)     |
| Impairment of long-lived assets            | (69,353)                         |             | (45,928)     |
| Restructuring and other charges            | (29,018)                         |             |              |
| <br>Operating loss                         | <br>(313,873)                    | <br>(1,455) | <br>(39,145) |

|   |              |         |           |
|---|--------------|---------|-----------|
| Interest expense  | (307,015)    | (2,178) | (3,943)   |
| Interest and dividend income  | 65,607       | 24,874  | 25,883    |
| Share of earnings (losses) of affiliates, net                         | 38,710       | 13,739  | (331,225) |
| Realized and unrealized gains (losses) on derivative instruments, net | (35,775)     | 12,762  | (16,705)  |
| Foreign currency transaction gains (losses), net                      | 117,657      | 5,412   | (8,267)   |
| Gains 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       |         |           |
| Gains (losses) on disposition of investments, net                     | 43,714       | (4,033) | (287)     |
| Other income (expense), net   | (7,931)      | 6,651   | 2,476     |
| Earnings (loss) before income taxes and minority interests            | \$ (202,843) | 48,888  | (495,981) |

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**(See note 1)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2004, 2003 and 2002 (Continued)**

|                                  |                 | <b>Capital expenditures</b>    |                 |                 |
|----------------------------------|-----------------|--------------------------------|-----------------|-----------------|
|                                  |                 | <b>Year ended December 31,</b> |                 |                 |
|                                  |                 | <b>2004</b>                    | <b>2003</b>     | <b>2002</b>     |
|                                  |                 | <b>amounts in thousands</b>    |                 |                 |
| UGC Broadband                    | The Netherlands | \$ (84,698)                    | (63,451)        | (97,841)        |
| UGC Broadband                    | France          | (65,435)                       | (48,810)        | (19,688)        |
| UGC Broadband                    | Austria         | (53,660)                       | (43,751)        | (38,388)        |
| UGC Broadband                    | Other Europe    | (146,965)                      | (75,873)        | (53,142)        |
| UGC Broadband                    | Chile (VTR)     | (41,685)                       | (41,391)        | (80,006)        |
| J-COM                            |                 | (295,914)                      | (279,841)       | (383,913)       |
| Corporate and all other          |                 | (115,904)                      | (82,717)        | (71,037)        |
| Elimination of equity affiliates |                 | 295,914                        | 612,965         | 719,105         |
| <b>Total consolidated LMI</b>    |                 | <b>\$ (508,347)</b>            | <b>(22,869)</b> | <b>(24,910)</b> |

**(21) Quarterly Financial Information (Unaudited)**

|   | <b>1st<br/>quarter</b>                                | <b>2nd<br/>quarter</b>           | <b>3rd<br/>quarter</b>           | <b>4th<br/>quarter</b>           |
|---|---|----------------------------------|----------------------------------|----------------------------------|
|   |   | <b>as restated<br/>(note 23)</b> | <b>as restated<br/>(note 23)</b> | <b>as restated<br/>(note 23)</b> |
|   | <b>amounts in thousands, except per share amounts</b> |                                  |                                  |                                  |
| <b>2004:</b>  |   |                                  |                                  |                                  |
| Revenue   | \$ 576,303  | 580,659                          | 708,807                          | 778,515                          |
| Operating loss  | \$ (83,627)   | (34,192)                         | (43,061)                         | (152,993)                        |
| Net earnings (loss):  |   |                                  |                                  |                                  |
| As previously reported  | \$ (83,951)   | (1,040)                          | 74,365                           | (21,132)                         |
| Restatement adjustment  |   | 30,066                           | 4,184                            | (20,550)                         |
| As restated   | \$ (83,951)   | 29,026                           | 78,549                           | (41,682)                         |
| Historical and pro forma earnings (loss)<br>per common share (note 3) |   |                                  |                                  |                                  |
| Basic and diluted:  |   |                                  |                                  |                                  |
| As previously reported  | \$ (0.55)   | (0.01)                           | 0.44                             | (0.12)                           |
| Restatement adjustment  |   | 0.20                             | 0.02                             | (0.12)                           |

|   |           |        |        |         |
|---|-----------|--------|--------|---------|
| As restated   | \$ (0.55) | 0.19   | 0.46   | (0.24)  |
| <b>2003:</b>  |           |        |        |         |
| Revenue   | \$ 24,947 | 27,076 | 28,031 | 28,336  |
| Operating income (loss)   | \$ 1,777  | (787)  | 1,625  | (4,070) |
| Net earnings (loss)   | \$ 6,802  | 10,499 | 9,051  | (5,463) |
| Historical and pro forma earnings<br>(loss) per common share (note 3) |           |        |        |         |
| Basic and diluted   | \$ 0.04   | 0.07   | 0.06   | (0.04)  |

**(22) Subsequent Events*****Movieco Settlement***

On December 3, 2002, Europe Movieco Partners Limited (Movieco) filed a request for arbitration against UPC with the International Court of Arbitration of the International Chamber of Commerce. The request contained claims that

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**Table of Contents****LIBERTY MEDIA INTERNATIONAL, INC.**

(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

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 \$39.3 million of unpaid license fees, plus interest and legal fees of £1.5 million (\$2.9 million). We paid a total amount of \$49.3 million in settlement of the award during the first quarter of 2005. Such amount was accrued in our December 31, 2004 consolidated balance sheet. All other claims and counterclaims were dismissed.

***Zone Vision***

In January 2005, chellomedia acquired an 87.5% interest in Zone Vision Networks Ltd. (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. 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.

***EWT Holding GmbH***

In December 2004, a subsidiary of chellomedia entered into an agreement to sell its 28.7% interest in EWT Holding GmbH to other investors for 30 million (\$40.9 million) in 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.

***Telemach***

On February 10, 2005, UPC Broadband Holding, UGC's wholly owned subsidiary, acquired 100% of the shares in Telemach d.o.o., a broadband communications provider in Slovenia, for cash consideration of approximately \$89.4 million.

**(23) Restatement of Consolidated Financial Statements**

In our consolidated financial statements for the year ended December 31, 2004, we accounted for the issuance of the euro-denominated UGC Convertible Notes as convertible debt, with changes in the euro to U.S. dollar exchange rate recorded as foreign currency transaction gains/losses in our consolidated statement of operations. Previously we concluded that generally accepted accounting principles did not require the separation of the embedded equity component based on our interpretation of certain scope exceptions prescribed by SFAS No. 133, *Accounting For Derivative Instruments* (Statement 133). Based on information that came to our attention in April 2005 and further research and analysis, we determined that the scope exceptions of Statement 133 did not apply, as the equity component of this financial instrument is indexed to both UGC Class A common stock price (traded in U.S. dollars) and to currency exchange rates (euro to U.S. dollar) related to the host debt instrument. Statement 133 and related interpretations preclude a scope exception for contracts where the settlement in shares of an entity's stock is indexed in part or in full to something other than the entity's stock price. As a result, we revised our conclusion to account for the embedded equity derivative separately at fair value, with changes in the fair value of the derivative recorded in our consolidated statement of operations.

As a result of our revised accounting, we have also recorded adjustments to (i) interest expense to reflect accretion of the debt component of this instrument at the issuance date to the aggregate principal amount that will be due and payable on April 15, 2011, the first date that the holders of the UGC Convertible Notes have the right to tender all or a part of the UGC Convertible Notes to UGC; (ii) foreign currency transaction gains to reflect the fact that a portion of

the previously reported foreign currency transaction gains and losses with respect to the UGC Convertible Notes are now included in the determination of the fair value of the equity component of the UGC Convertible Notes; and  
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**Table of Contents****LIBERTY MEDIA INTERNATIONAL, INC.**

(See note 1)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2004, 2003 and 2002 (Continued)**

(iii) minority interests in losses of subsidiaries to reflect the UGC minority interest owners' share of the net restatement adjustments. The fair value of the embedded equity derivative and the accreted value of the debt host contract are presented together in long-term debt in our consolidated balance sheet. This restatement affected our previously issued consolidated financial statements as follows:

| <b>December 31, 2004</b>          |                                |                   |                    |
|-----------------------------------|--------------------------------|-------------------|--------------------|
|                                   | <b>Previously<br/>reported</b> | <b>Adjustment</b> | <b>As restated</b> |
| <b>amounts in thousands</b>       |                                |                   |                    |
| <b><i>Balance Sheet</i></b>       |                                |                   |                    |
| Long-term debt                    | \$ 4,981,960                   | (26,041)          | 4,955,919          |
| Total liabilities                 | \$ 7,271,188                   | (26,041)          | 7,245,147          |
| Minority interest in subsidiaries | \$ 1,204,369                   | 12,341            | 1,216,710          |
| Accumulated deficit               | \$ (1,662,707)                 | 13,700            | (1,649,007)        |
| Total stockholders' equity        | \$ 5,226,806                   | 13,700            | 5,240,506          |

**Year Ended December 31, 2004**

|   | <b>Previously<br/>reported</b> | <b>Adjustment</b> | <b>As restated</b> |
|---|--------------------------------|-------------------|--------------------|
| <b>amounts in thousands,<br/>except per share amounts</b>     |                                |                   |                    |
| <b><i>Statement of Operations</i></b>                         |                                |                   |                    |
| Interest expense  | \$ (288,532)                   | (18,483)          | (307,015)          |
| Realized and unrealized losses on derivative instruments, net | \$ (54,947)                    | 19,172            | (35,775)           |
| Foreign currency transaction gains, net                       | \$ 92,305                      | 25,352            | 117,657            |
| Loss before income taxes and other items                      | \$ (228,884)                   | 26,041            | (202,843)          |
| Minority interests in losses of subsidiaries                  | \$ 179,677                     | (12,341)          | 167,336            |
| Net loss  | \$ (31,758)                    | 13,700            | (18,058)           |



|   |    |        |      |        |
|---|----|--------|------|--------|
| Pro forma basic and diluted loss per common share | \$ | (0.20) | 0.09 | (0.11) |
|---|----|--------|------|--------|

The restatement had no effect on total cash flows from operating, investing or financing activities. See note 21 for the impact of the restatement on our net earnings (loss) for each of the three-month periods ended June 30, 2004, September 30, 2004 and December 31, 2004.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Liberty Media International, Inc.:

Under date of March 11, 2005, except as to Note 23, which is as of April 27, 2005, we reported on the consolidated balance sheets of Liberty Media International, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, which are included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules I and II in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2004. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

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

As discussed in Note 23, the consolidated financial statements as of and for the year ended December 31, 2004 have been restated.

KPMG LLP

Denver, Colorado

March 11, 2005, except as to Note 23,  
which is as of April 27, 2005

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**SCHEDULE I**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**(Parent Company Information)**  
**CONDENSED BALANCE SHEET**  
**(Parent Company Only)**  
**amounts in thousands**

|   | <b>December 31,<br/>2004</b> |
|---|------------------------------|
|   | <b>as restated (1)</b>       |
| <b>ASSETS</b>   |                              |
| Current assets:   |                              |
| Cash and cash equivalents   | \$ 1,069,996                 |
| Derivative instruments  | 56,011                       |
| Other current assets  | 621                          |
| Total current assets  | 1,126,628                    |
| Investments in consolidated subsidiaries  | 4,146,985                    |
| Property and equipment, at cost   | 7,597                        |
| Accumulated depreciation  | (387)                        |
|   | 7,210                        |
| Total assets  | \$ 5,280,823                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                              |
| Current liabilities:  |                              |
| Accrued liabilities   | \$ 3,927                     |
| Derivative instruments  | 5,257                        |
| Total current liabilities   | 9,184                        |
| Other long-term liabilities   | 31,133                       |
| Total liabilities   | 40,317                       |
| Commitments and contingencies   |                              |
| Stockholders Equity:  |                              |
| Series A common stock, \$.01 par value. Authorized 500,000,000 shares; issued and outstanding; 168,514,962 and nil shares at December 31, 2003 and 2004, respectively | 1,685                        |
| Series B common stock, \$.01 par value. Authorized 50,000,000 shares; issued and outstanding; 7,264,300 and nil shares at December 31, 2003 and 2004, respectively    | 73                           |

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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                                |    | (1,649,007)      |
| Accumulated other comprehensive loss, net of taxes |    | 14,010           |
| Treasury stock, at cost                            |    | (127,890)        |
| <b>Total stockholders equity</b>                   |    | <b>5,240,506</b> |
| <br>   |    |                  |
| Total liabilities and stockholders equity          | \$ | 5,280,823        |

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**SCHEDULE I**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**(Parent Company Information)**  
**CONDENSED STATEMENT OF OPERATIONS**  
**(Parent Company Only)**  
**amounts in thousands**

|  | <b>Seven months<br/>ended<br/>December 31,<br/>2004</b> |
|--|---|
|  | <b>as restated (1)</b>                                  |
| <b>Operating costs and expenses:</b>   |   |
| Selling, general and administrative (SG&A)   | \$ 8,535  |
| Stock-based compensation charges   | 20,382  |
| Depreciation and amortization  | 387   |
| <b>Operating loss</b>  | <b>(29,304)</b>   |
| <b>Other income (expense):</b>   |   |
| Interest and dividend income   | 8,673   |
| Realized and unrealized losses on derivative instruments, net                              | (4,146)   |
| Other income, net  | 1,465   |
|  | 5,992   |
| <b>Loss before income taxes and equity in income of consolidated subsidiaries,<br/>net</b> | <b>(23,312)</b>   |
| Equity in income of consolidated subsidiaries, net   | 90,443  |
| Income tax benefit   | 5,763   |
| <b>Net income</b>  | <b>\$ 72,894</b>  |

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.

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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**SCHEDULE I**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**(Parent Company Information)**  
**CONDENSED STATEMENT OF STOCKHOLDERS EQUITY**  
**(Parent Company Only)**  
**For the seven months ended December 31, 2004**

|   | Common stock |             |             | Additional         | Accumulated | Accumulated<br>other<br>comprehensive<br>earnings<br>(loss),<br>net of<br>taxes | Treasury<br>stock,<br>at cost | Total<br>stockholders<br>equity |
|---|--------------|-------------|-------------|--------------------|-------------|---|-------------------------------|---------------------------------|
|   | Series<br>A  | Series<br>B | Series<br>C | paid-in<br>capital | deficit     |   |                               |                                 |
| <b>amounts in thousands</b>   |              |             |             |                    |             |   |                               |                                 |
| Balance at June 1,<br>2004  | \$ 1,399     | 61          |             | 6,227,851          | (1,721,901) | (56,388)  |                               | 4,451,022                       |
| Net earnings (as<br>restated)(1)  |              |             |             |                    | 72,894      |   |                               | 72,894                          |
| Other<br>comprehensive<br>earnings  |              |             |             |                    |             | 70,398  |                               | 70,398                          |
| Adjustment due to<br>issuance of stock<br>by subsidiaries<br>and affiliates and<br>other changes in<br>subsidiary equity,<br>net of taxes |              |             |             | 6,049              |             |   |                               | 6,049                           |
| Common stock<br>issued in rights<br>offering  | 283          | 12          |             | 735,366            |             |   |                               | 735,661                         |
| Stock issued for<br>stock option<br>exercises   | 3            |             |             | 11,987             |             |   |                               | 11,990                          |
| Repurchase of<br>common stock   |              |             |             |                    |             |   | (127,890)                     | (127,890)                       |
| Stock-based<br>compensation   |              |             |             | 20,382             |             |   |                               | 20,382                          |
| Balance at<br>December 31, 2004<br>(as restated)(1)   | \$ 1,685     | 73          |             | 7,001,635          | (1,649,007) | 14,010  | (127,890)                     | 5,240,506                       |

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.



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**LIBERTY MEDIA INTERNATIONAL, INC.**  
**SCHEDULE I**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**(Parent Company Information)**  
**CONDENSED STATEMENT OF CASH FLOWS**  
**(Parent Company Only)**  
**amounts in thousands**

|  | <b>Seven months<br/>ended<br/>December 31,<br/>2004</b> |
|--|---|
|  | <b>as restated (1)</b>                                  |
| <b>Cash flows from operating activities:</b>   |   |
| Net earnings   | \$ 72,894   |
| <b>Adjustments to reconcile net earnings to net cash provided by operating activities:</b> |   |
| Equity in income of consolidated subsidiaries, net   | (90,443)  |
| Stock-based compensation charges   | 20,382  |
| Realized and unrealized losses on derivative instruments, net                              | 4,146   |
| Deferred income tax expense  | (4,417)   |
| Other noncash items, net   | 30,582  |
| <b>Changes in operating assets and liabilities</b>   |   |
| Receivables, prepaids and other  | (329)   |
| Payables and accruals  | 2,242   |
| Net cash provided by operating activities  | 35,057  |
| <b>Cash flows from investing activities:</b>   |   |
| Investments in and loans to consolidated subsidiaries, affiliates and others               | 400,281   |
| Net cash paid to purchase or settle derivative instruments                                 | (35,653)  |
| Other investing activities, net  | (36)  |
| Net cash used by investing activities  | 364,592   |
| <b>Cash flows from financing activities:</b>   |   |
| Net proceeds received from rights offering   | 735,661   |
| Treasury stock purchase  | (127,890)   |
| Proceeds from stock option exercises   | 11,990  |
| Net cash provided by financing activities  | 619,761   |
| Net increase in cash and cash equivalents  | 1,019,410   |
| <b>Cash and cash equivalents:</b>  |   |
| Beginning of period  | 50,586  |
| End of period  | \$ 1,069,996  |



Cash paid for interest

|                         |    |       |
|-------------------------|----|-------|
| Net cash paid for taxes | \$ | 4,383 |
|-------------------------|----|-------|

(1) See note 23 to the accompanying consolidated financial statements of Liberty Media International, Inc.  
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**LIBERTY MEDIA INTERNATIONAL, INC.  
SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS**

**Allowance for Doubtful Accounts**

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

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**Report of Independent Registered Public Accounting Firm**

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

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

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

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

KPMG AZSA & Co.

Tokyo, Japan

February 14, 2005

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

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

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

**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

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

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

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Weighted average number of ordinary shares<br>outstanding basic and diluted | 3,934,286 | 4,407,046 | 4,871,169 |
|---|-----------|-----------|-----------|

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

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

|  | Ordinary<br>Shares | Additional<br>Paid-in<br>Capital | Comprehensive<br>Income<br>(Loss) | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Shareholders<br>Equity |
|--|--------------------|----------------------------------|-----------------------------------|------------------------|---|---------------------------------|
| (Yen in thousands, except per share amounts)   |                    |                                  |                                   |                        |   |                                 |
| <b>Balance at<br/>January 1, 2002</b>  | ¥ 47,002,623       | ¥ 106,525,481                    |                                   | ¥ (86,315,461)         | ¥   | ¥ 67,212,643                    |
| Net loss   |                    |                                  | ¥ (7,542,676)                     | (7,542,676)            |   | (7,542,676)                     |
| Other<br>comprehensive<br>income   |                    |                                  |                                   |                        |   |                                 |
| Comprehensive<br>loss  |                    |                                  | ¥ (7,542,676)                     |                        |   |                                 |
| Stock<br>compensation<br>(Notes 1 and 11)  |                    | 64,058                           |                                   |                        |   | 64,058                          |
| <b>Balance at<br/>December 31,<br/>2002</b>  | ¥ 47,002,623       | ¥ 106,589,539                    |                                   | ¥ (93,858,137)         | ¥   | ¥ 59,734,025                    |
| Net income   |                    |                                  | ¥ 5,351,250                       | 5,351,250              |   | 5,351,250                       |
| Other<br>comprehensive<br>loss:  |                    |                                  |                                   |                        |   |                                 |
| Unrealized loss<br>on cash flow<br>hedge   |                    |                                  | (694,745)                         |                        | (694,745)                                     | (694,745)                       |
| Comprehensive<br>income  |                    |                                  | ¥ 4,656,505                       |                        |   |                                 |
| Stock<br>compensation<br>(Notes 1 and 11)  |                    | 117,359                          |                                   |                        |   | 117,359                         |
| Ordinary shares<br>issued upon<br>conversion of<br>long-term debt;<br>750,250 shares at<br>¥43,000 per share<br>(Note 6) | 16,130,375         | 16,130,375                       |                                   |                        |   | 32,260,750                      |

|  |              |               |                |             |               |
|--|--------------|---------------|----------------|-------------|---------------|
| <b>Balance at<br/>December 31,<br/>2003</b>                                      | ¥ 63,132,998 | ¥ 122,837,273 | ¥ (88,506,887) | ¥ (694,745) | ¥ 96,768,639  |
| Net income   |              | ¥ 10,821,175  | 10,821,175     |             | 10,821,175    |
| Other<br>comprehensive<br>gain:  |              |               |                |             |               |
| Unrealized gain<br>on cash flow<br>hedge   |              | 686,541       |                | 686,541     | 686,541       |
| Comprehensive<br>income  |              | ¥ 11,507,716  |                |             |               |
| Stock<br>compensation<br>(Notes 1 and 11)  |              | 93,484        |                |             | 93,484        |
| Ordinary shares<br>issued; 461,539<br>shares at ¥65,000<br>per share<br>(Note 1) | 15,000,017   | 15,000,017    |                |             | 30,000,034    |
| <b>Balance at<br/>December 31,<br/>2004</b>                                      | ¥ 78,133,015 | ¥ 137,930,774 | ¥ (77,685,712) | ¥ (8,204)   | ¥ 138,369,873 |

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

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|   |              |               |               |
|---|--------------|---------------|---------------|
| Net cash used in investing activities               | (47,732,840) | (34,526,405)  | (39,882,217)  |
| Cash flows from financing activities:               |              |               |               |
| Proceeds from issuance of common stock              |              |               | 30,000,034    |
| Net increase/(decrease) in short-term loans         | 36,984,965   | (228,785,000) | 250,000       |
| Proceeds from long-term debt                        | 2,620,000    | 239,078,000   | 185,302,000   |
| Principal payments of long-term debt                | (2,082,335)  | (8,184,980)   | (210,097,730) |
| Principal payments under capital lease obligations  | (9,293,487)  | (10,843,024)  | (11,887,363)  |
| Other financing activities                          | (738,854)    | (3,464,440)   | (3,562,724)   |
| Net cash provided by (used in) financing activities | 27,490,289   | (12,199,444)  | (9,995,783)   |
| Net increase in cash and cash equivalents           | 2,439,067    | 239,220       | 2,634,131     |
| Cash and cash equivalents at beginning of year      | 5,107,691    | 7,546,758     | 7,785,978     |
| Cash and cash equivalents at end of year            | ¥ 7,546,758  | ¥ 7,785,978   | ¥ 10,420,109  |

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

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

***Basis of Financial Statements***

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

**Summary of Significant Accounting Policies*****(a) Consolidation Policy***

The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries which are primarily cable system operators ( SOs ). All significant intercompany balances and transactions have been eliminated. For the consolidated subsidiaries with a negative equity position, the Company

has recognized the entire amount of cumulative losses of such subsidiaries regardless of its ownership percentage.

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(b) Cash and Cash Equivalents***

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

***(c) Allowance for Doubtful Accounts***

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

***(d) Investments***

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

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

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

***(e) Property and Equipment***

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

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥1,315,484 thousand, ¥2,041,347 thousand and ¥2,558,513 thousand for the years ended December 31, 2002, 2003 and 2004, respectively. During the first quarter of 2000, the Company and its subsidiaries approved a plan to upgrade substantially all of its 450 MHz distribution systems to 750 MHz during the years ending December 31, 2000 and 2001. The Company identified certain electronic components of their distribution systems that were replaced in connection with the upgrade and, accordingly, adjusted the remaining useful lives of such electronics in accordance with the upgrade schedule. The effect of such changes in the remaining useful lives resulted in additional depreciation expense of approximately ¥484 million for the year ended December 31, 2002. Additionally, after giving effect to the accelerated depreciation, the net loss per share increased by approximately ¥(123) per share for the year ended December 31, 2002. Such upgrades had been substantially completed by December 31, 2002.

***(f) Goodwill***

Goodwill represents the difference between the cost of the acquired cable television companies and amounts allocated to the estimated fair value of their net assets. The Company performs an assessment of goodwill for impairment at

least

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**(g) Long-Lived Assets**

The Company and its subsidiaries' long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

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

**(h) Other Assets**

Other assets include certain development costs associated with internal-use software capitalized, including external costs of material and services, and payroll costs for employees devoting time to the software projects. These costs are amortized over a period not to exceed five years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred. Other assets also include deferred financing costs, primarily legal fees and bank facility fees, incurred to negotiate and secure the facility. These costs are amortized to interest expense using the effective interest method over the term of the facility. For additional information concerning the Company's debt facilities, see Note 6.

**(i) Derivative Financial Instruments**

The Company uses certain derivative financial instruments to manage its foreign currency and interest rate exposure. The Company may enter into forward contracts to reduce its exposure to short-term (generally no more than one year) movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen. The Company uses interest rate risk management derivative instruments, such as interest rate swap and interest cap agreements, to manage interest costs to achieve an overall desired mix of fixed and variable rate debt. As a matter of policy, the Company does not enter into derivative contracts for trading or speculative purposes. The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133*. SFAS No. 133, as amended, requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instrument and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in other comprehensive income until it is recognized

in earnings in the same period in which the hedged item affects earnings. The ineffective portion of all hedges will be recognized in current earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge will be recorded each period in current earnings.

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

***(j) Severance and Retirement Plans***

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

***(k) Income Taxes***

The Company and its subsidiaries account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to

taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(l) Cable Television System Costs, Expenses and Revenues**

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

**(m) Revenue Recognition**

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

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

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

**(n) Advertising Expense**

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

**(o) Stock-Based Compensation**

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

over the vesting period. Compensation expense is recorded in operating costs and expenses for the

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company's employees and nonemployees and in equity in earnings of affiliates for employees of affiliated companies in the accompanying consolidated statements of operations.

SFAS No. 123 allows companies to continue to apply the provisions of APB No. 25, where applicable, and provide pro forma disclosure for employee stock option grants as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB No. 25 for stock-based compensation plans to its employees and provide the pro forma disclosure required by SFAS No. 123. The following table illustrates the effect on net income (loss) and net income (loss) per share for the years ended December 31, 2002, 2003 and 2004, if the Company had applied the fair value recognition provisions of SFAS No. 123 (Yen in thousands, except share and per share amounts):

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

**(p) Earnings Per Share**

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

**(q) Segments**

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

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

**(r) Use of Estimates**

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial

statements in conformity with U.S. GAAP. Significant judgments and estimates include derivative financial instruments, depreciation and amortization costs, impairments of property and equipment and goodwill, income taxes and other contingencies. Actual results could differ from those estimates.

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(s) Recent Accounting Pronouncements**

The FASB issued SFAS No. 123 (Revised 2004) (SFAS No. 123R) in December 2004. SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25 and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. We have not yet determined the impact SFAS No. 123R will have on our results of operations.

**2. Acquisitions**

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

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

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

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

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

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



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

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Goodwill and Other Assets**

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

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

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

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

**5. Related Party Transactions**

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

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

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

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

2.48%.

The Company purchases certain cable television programs from Jupiter Programming Co., Ltd. ( JPC ), an affiliated company jointly owned by SC and a wholly owned subsidiary of LMI. Such purchases, including purchases from JPC s affiliates, amounted to ¥2,879,616 thousand, ¥3,155,139 thousand and ¥3,915,345 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included in operating and programming costs in the accompanying consolidated statements of operations. Additionally, the Company receives a distribution fee to carry the Shop Channel, a majority owned subsidiary of JPC, for the greater of a fixed rate per subscriber or a percentage of revenue generated through sales in the Company s territory. Such fees amounted to ¥614,224 thousand, ¥939,438 thousand and ¥1,063,678 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included as revenue other in the accompanying consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

SC, LMI and Microsoft had long-term subordinated loans to the Company of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. In December 2004, the Company refinanced and replaced these subordinated shareholder loans under a new facility. See Note 6. The Company pays fees on debt guaranteed by SC, LMI and Microsoft. The guarantee fees incurred were ¥413,128 thousand to SC, ¥361,627 thousand to LMI and ¥285,042 thousand to Microsoft for the year ended December 31, 2002. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMI and ¥51,890 thousand to Microsoft for the year ended December 31, 2003. The guarantee fees incurred were ¥41,071 thousand to SC, ¥41,071 thousand to LMI and ¥16,332 thousand to Microsoft for the year ended December 31, 2004. Such fees are included in interest expense, net-related parties in the accompanying consolidated statements of operations. In December 2004 these guarantees were replaced by a guarantee facility with a syndicate of lenders. See Note 6.

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Long-Term Debt**

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

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

**2003 Financing**

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

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

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

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

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

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

In March 2004, the Company entered into additional shareholder subordinated loans of ¥2,431,000 thousand each with SC and LMI. The aggregate ¥4,862,000 thousand of loan proceeds were used for the purchase of the remaining shares



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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of @NetHome (see Note 2). These additional shareholder subordinated loans had identical terms to the Shareholder Subordinated Loans discussed above.

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

**2004 Refinancing**

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

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

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

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

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

interest rates for the outstanding Tranche A Facility, Tranche B Facility, and Guarantee Facility, were 1.6%, 1.9%, and 1.0% respectively.

The ¥175 billion Facility has requirements to make mandatory prepayments in the amount equal to (1) 50% of the Group Free Cash Flow, as defined in the agreement, until the later of (a) March 31, 2007 and (b) the first quarter for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

**Development Bank of Japan Loans**

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

**Securities on Long-Term Debt**

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

**Year Ending December 31,**

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

**7. Leases**

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

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

**8. Income Taxes**

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

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

|                    | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|--------------------|-------------|-------------|-------------|
| Current            | ¥ 256,763   | ¥ 209,805   | ¥ 1,812,786 |
| Deferred           |             |             | 45,591      |
| Income tax expense | ¥ 256,763   | ¥ 209,805   | ¥ 1,858,377 |

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

Current deferred tax assets in the amount of ¥2,068,822 thousand are included in prepaid expenses and non-current deferred tax assets in the amount of ¥1,308,582 thousand are included in other in non-current assets in the

accompanied consolidated balance sheet at December 31, 2004.

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

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



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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Year Ending December 31,**

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

**9. Severance and Retirement Plans**

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

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

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

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

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

Benefit obligation, end of year ¥ 2,006,011      ¥ 2,681,667

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

|                                     | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|-------------------------------------|-------------|-------------|-------------|
| <b>Projected benefit obligation</b> |             |             |             |
| Discount rate                       | 2.5%        | 2.0%        | 2.0%        |
| <b>Net pension cost</b>             |             |             |             |
| Discount rate                       | 3.0%        | 2.0%        | 2.0%        |

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Estimated Future Benefit Payments**

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

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

**10. Redeemable Preferred Stock**

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

**11. Shareholders Equity***Dividends*

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

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

*Stock-Based Compensation Plans*

The Company maintains subscription-rights option plans and stock purchase warrant plans for certain directors, corporate auditors and employees of the Company's consolidated managed franchises and to directors, corporate auditors and employees of the Company's unconsolidated managed franchises and other non-employees (collectively the Jupiter Option Plans). The Company's board of directors and shareholders approved the grant of the Company's

ordinary shares at an initial exercise price of ¥92,000 per share. The exercise price is subject to adjustment upon an effective IPO to the lower of ¥92,000 per share or the IPO offering price.

Under Jupiter Option Plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations and the subscription rights will not be exercisable until the Company's ordinary shares are registered with the Japan Securities Dealers Association or listed on a stock exchange.

Non-management

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**Table of Contents****JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

employees will, unless the grant agreement provides otherwise, vest in two years from date of grant. Management employees will, unless the grant agreement provides otherwise, vest in four equal installments from date of grant. Options under the Jupiter Option Plans generally expire 10 years from date of grant, currently ranging from August 23, 2010 to August 23, 2012.

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

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

The following table summarizes activity under the Jupiter Option Plans:

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

**12. Fair Value of Financial Instruments**

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

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

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**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Supplemental Disclosures to Consolidated Statements of Cash Flows**

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

**14. Commitments**

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

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

**15. Subsequent Events**

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





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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Jupiter Programming Co. Ltd.:

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

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

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

KPMG AZSA & Co.

Tokyo, Japan

March 4, 2005

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2003 and 2004**

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (Continued)**

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

See accompanying notes to consolidated financial statements.



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years ended December 31, 2002, 2003 and 2004**

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

|            |   |           |   |           |   |           |
|------------|---|-----------|---|-----------|---|-----------|
| Net income | ¥ | 1,017,720 | ¥ | 2,665,290 | ¥ | 3,210,058 |
|------------|---|-----------|---|-----------|---|-----------|

See accompanying notes to consolidated financial statements.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

Years ended December 31, 2002, 2003 and 2004

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

Balance at end of year

|   |   |           |   |           |   |            |
|---|---|-----------|---|-----------|---|------------|
| Total shareholders equity   | ¥ | 1,937,999 | ¥ | 4,603,289 | ¥ | 10,997,632 |
| Comprehensive income:   |   |           |   |           |   |            |
| Net income for the year   | ¥ | 1,017,720 | ¥ | 2,665,290 | ¥ | 3,210,058  |
| Other comprehensive loss for the year, net of tax benefit, ¥11,460 thousand in 2004 |   |           |   |           |   | (16,705)   |
| Total comprehensive income  | ¥ | 1,017,720 | ¥ | 2,665,290 | ¥ | 3,193,353  |

See accompanying notes to consolidated financial statements.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2002, 2003 and 2004**

|   | 2002               | 2003        | 2004        |
|---|--------------------|-------------|-------------|
|   | (unaudited)        |             |             |
|   | (Yen in thousands) |             |             |
| Cash flows from operating activities:   |                    |             |             |
| Net income  | ¥ 1,017,720        | ¥ 2,665,290 | ¥ 3,210,058 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |             |             |
| Depreciation and amortization   | 1,107,040          | 1,210,163   | 1,380,432   |
| Amortization of program rights and language versioning                            | 1,298,054          | 1,570,670   | 1,732,435   |
| Provision for doubtful accounts   | 1,501              | 1,975       | (3,519)     |
| Equity in losses (income) of equity method affiliates                             | 163,758            | 64,472      | (22,888)    |
| Write-down of cost method investment  | 215,650            |             |             |
| Deferred income taxes   | (536,017)          | (553,039)   | (278,181)   |
| Minority interest in earnings   | 343,027            | 608,738     | 1,077,972   |
| Changes in assets and liabilities, net of effects of acquisitions:                |                    |             |             |
| Purchase of program rights and language versioning                                | (1,433,219)        | (1,608,392) | (1,631,074) |
| Increase in accounts receivable   | (515,809)          | (740,650)   | (1,307,561) |
| (Increase) decrease in retail inventories, net                                    | (777,383)          | 252,870     | (763,453)   |
| Increase (decrease) in accounts payable   | 1,242,235          | 777,510     | 883,283     |
| Increase in accrued liabilities   | 169,642            | 425,674     | 263,015     |
| Increase in income taxes payable  | 939,964            | 369,587     | 674,288     |
| Other, net  | 457,341            | 210,947     | (22,218)    |
| Net cash provided by operating activities   | 3,693,504          | 5,255,815   | 5,192,589   |
| Cash flows from investing activities:   |                    |             |             |
| Capital expenditures  | (1,378,218)        | (1,299,228) | (3,886,668) |
| Acquisition of subsidiary, net of cash acquired                                   | (188,844)          |             | (391,887)   |
| Investments in affiliates   | (626,050)          | (1,259,945) | (748,500)   |
| Other, net  | (113,998)          | 4,500       |             |
| Net cash used in investing activities   | (2,307,110)        | (2,554,673) | (5,027,055) |
| Cash flows from financing activities:   |                    |             |             |
| Proceeds (repayments) on short-term debt  |                    | 46,000      | (46,000)    |
| Proceeds from advances from affiliate   |                    |             | 938,000     |
| Proceeds from issuance of long-term debt  | 60,000             | 4,040,000   |             |
| Principal payments on long-term debt  |                    | (4,000,000) | (176,000)   |
| Principal payments on obligations under capital leases                            | (527,935)          | (460,262)   | (429,014)   |
| Proceeds from issuance of common stock  |                    |             | 6,000,000   |
| Payments to acquire treasury stock  |                    |             | (6,000,000) |

|  |             |             |             |
|--|-------------|-------------|-------------|
| Net cash used in financing activities                            | (467,935)   | (374,262)   | 286,986     |
| Net effect of exchange rate changes on cash and cash equivalents | (25,895)    | (23,095)    | (4,677)     |
| Net increase in cash and cash equivalents                        | 892,564     | 2,303,785   | 447,843     |
| Cash and cash equivalents at beginning of year                   | 1,708,419   | 2,600,983   | 4,904,768   |
| Cash and cash equivalents at end of year                         | ¥ 2,600,983 | ¥ 4,904,768 | ¥ 5,352,611 |

## Supplemental information:

## Cash paid during the year for:

|  |           |             |             |
|--|-----------|-------------|-------------|
| Income taxes   | ¥ 299,999 | ¥ 1,702,678 | ¥ 2,551,301 |
| Interest   | 152,381   | 126,277     | 90,711      |
| Acquisition of BBF (Note 2)  |           |             |             |
| Fair value of assets acquired (including cash acquired of ¥158,113 thousand) |           |             | 705,657     |
| Fair value of liabilities assumed  |           |             | (87,657)    |
| Accrued estimated additional purchase consideration                          |           |             | (68,000)    |
| Non-cash activities:   |           |             |             |
| Assets acquired under capital leases   | 5,457     | 142,644     | 1,037,505   |
| Acquisition of LJS through issuance of treasury stock (Note 2)               |           |             | 3,200,990   |
| Elimination of long-term loan from LJS                                       |           |             | 840,000     |

See accompanying notes to consolidated financial statements.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**(a) *Description of Business***

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

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

**(b) *Basis of Consolidated Financial Statements***

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

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

**(c) *Principles of Consolidation***

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

**(d) *Cash Equivalents***

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



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(e) Allowance for Doubtful Accounts***

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

***(f) Retail Inventories***

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

***(g) Program Rights and Language Versioning***

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

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

***(h) Investments***

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

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

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

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

***(i) Derivative Financial Instruments***

Under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, entities are required to carry all derivative instruments in the consolidated balance sheets at fair value. The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding the instrument. If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

offsetting loss or gain on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the gain or loss are reported in earnings immediately. If the derivative instrument is not designated as a hedge, the gain or loss is recognized in income in the period of change.

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

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

**(j) Property and Equipment**

Property and equipment are stated at cost.

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

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

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

**(k) Software Development Costs**

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

**(l) Goodwill and Other Intangible Assets**

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets. Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***(m) Long-Lived Assets and Long-Lived Assets to Be Disposed of***

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

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

***(n) Accrued Pension and Severance Costs***

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

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

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

***(o) Revenue Recognition***

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

*Television Programming Revenue.* Television programming revenue includes subscription and advertising revenue. Subscription revenue is recognized in the periods in which programming services are provided to cable and satellite subscribers. JPC s channels distribute programming to individual satellite platform subscribers through an agreement with the platform operator which provides subscriber management services to channels in return for a fee based on subscription revenues. Individual subscribers pay a monthly fee for programming channels under the terms of rolling

one-month subscription contracts. Cable service providers generally pay a per-subscriber fee for the right to distribute  
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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

JPC's programming on their systems under the terms of generally annual distribution contracts. Subscription revenue is recognized net of satellite platform commissions and certain cooperative marketing and advertising funds paid to cable system operators. Satellite platform commissions for the years ended December 31, 2002, 2003 and 2004 were ¥843,335 thousand, ¥1,580,945 thousand and ¥1,639,055 thousand, respectively. Cooperative marketing and advertising funds paid to cable system operators for the years ended December 31, 2002, 2003 and 2004 were ¥80,289 thousand, ¥174,432 thousand and ¥225,572 thousand, respectively.

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

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

**(p) Cost of Retail Sales**

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

**(q) Cost of Programming and Distribution**

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

**(r) Advertising Expense**

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

**(s) Income Taxes**

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

**(t) Foreign Currency Transactions**

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

**(u) Use of Estimates**

Management of JPC has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period, to prepare these consolidated financial



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

statements in conformity with accounting principles generally accepted in the United States of America. Significant items subject to such estimates and assumptions include valuation allowances for accounts receivable, retail inventories, investments, deferred tax assets, retail sales returns, and obligations related to employees' retirement plans. Actual results could differ from estimates.

**(v) New Accounting Standards**

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

**(w) Reclassification**

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

**(2) Acquisitions**

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

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

|                              |          |                |
|------------------------------|----------|----------------|
| Current assets               | ¥        | 139,787        |
| Goodwill                     |          | 183,655        |
| <b>Total assets acquired</b> |          | <b>323,442</b> |
| Current liabilities assumed  |          | (134,598)      |
| <b>Net assets acquired</b>   | <b>¥</b> | <b>188,844</b> |

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

In April 2004, JPC acquired all of the issued and outstanding common stock of Liberty J Sports, Inc. ( LJS ) from LMI, in exchange for 24,000 shares of JPC's common stock held in treasury having a fair value, as determined by independent appraisal, of ¥250,000 per share. The aggregate purchase price amounted to ¥6,000,000 thousand. Immediately prior to the acquisition, LJS held 33.3% of the issued and outstanding shares of voting common stock of Jupiter Sports, Inc., with JPC holding the remaining 66.7%. Jupiter Sports Inc. is a holding company with its only principal asset, an investment, representing approximately 42.8% of the issued and outstanding voting common stock, in JSports Broadcasting Corporation ( JSB ). JSB is a sports channel broadcasting company currently operating three

channels of various sports related contents. Jupiter Sports Inc. accounts for its investment in JSB using the equity method of accounting as it is able to exercise significant influence over the operations of JSB. As a result of the acquisition of LJS, JPC has increased its indirect ownership in JSB from 28.5% to 42.8%. Upon consummation of the acquisition, LJS was converted to a limited liability company with the Certificate of Conversion filed with the Secretary of State of Delaware, and renamed J Sports LLC.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The Company has accounted for the acquisition to the extent of the ¥3,000,000 thousand cash paid to LMI in an earlier redemption of shares of common stock (see Note 15) in a manner similar to a partial step acquisition, reflecting the culmination of an earnings process on the part of LMI. Accordingly, the excess of ¥3,000,000 thousand over 50% of the fair value of the assets acquired and liabilities assumed with respect to the underlying investment in JSB has been recorded as a component of JPC's investment in JSB and accordingly has been classified as equity method goodwill. Management has determined that the fair value of the assets acquired and liabilities assumed approximated their respective carrying values at the date of acquisition, and that there were no material intangible assets applicable to the underlying investment in JSB. The balance of the underlying investment acquired in JSB has been accounted for at historical cost using carryover basis with the difference of ¥3,000,000 thousand over such historical cost amount being reflected as a deduction from additional paid in capital. Goodwill from the acquisition is not deductible for tax purposes.

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

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

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

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

|                   |   |         |
|-------------------|---|---------|
| Current assets    | ¥ | 224,471 |
| Intangible assets |   | 200,000 |

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(3) Program Rights and Language Versioning**

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

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

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

**(4) Investments**

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

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

|                               |       |             |       |             |
|-------------------------------|-------|-------------|-------|-------------|
| Satellite Service Co. Ltd.    | 12.0% | 24,000      | 12.0% | 24,000      |
| Total cost method investments |       | 761,100     |       | 761,100     |
|                               |       | ¥ 3,359,563 |       | ¥ 6,929,961 |

The following investments represent participation in programming businesses:

- Discovery Japan, Inc., a general documentary channel;
- Animal Planet Japan, Co. Ltd., an animal-specific documentary channel;
- JSports Broadcasting Corporation, a sports channel business currently operating three channels;
- AXN Japan, Inc., an action and adventure channel;
- NikkeiCNBC Japan, Inc., a news service channel;
- Kids Station, Inc., a children's entertainment channel;
- AT-X, Inc., an animation genre channel;

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Nihon Eiga Satellite Broadcasting Corporation, a Japanese period drama and movie channels business currently operating two channels; and

Jupiter VOD Co., Inc. a multi-genre video on demand programming service

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

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;

Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

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

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

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

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

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

JPC holds 33.3% of the ordinary shares of Animal Planet Japan, Co. Ltd, and records its share of the earnings and losses in accordance with that ordinary shareholding ratio. The Company has funding obligations in accordance with its ordinary shareholding ratio up to a maximum of ¥1,295,250 thousand. During the years ended December 31, 2003 and 2004, the Company invested ¥370,000 thousand and ¥165,000 thousand, respectively, and had made an aggregate investment of ¥1,295,000 thousand as of December 31, 2004, in Animal Planet Japan, Co. Ltd. JPC's funding obligations for this investment have been substantially fulfilled. JPC and Animal Planet Japan, Co. Ltd. s other shareholders are currently preparing a revised business plan and funding agreement for this investment.

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



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

**(5) Property and Equipment**

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

|                                     | 2003      | 2004      |
|-------------------------------------|-----------|-----------|
| Furniture and fixtures              | ¥ 143,364 | ¥ 187,233 |
| Leasehold and building improvements | 671,028   | 1,362,537 |
| Equipment and vehicles              | 2,698,152 | 4,295,113 |
| Buildings                           |           | 851,485   |
| Land                                | 437,147   | 437,147   |
| Construction in progress            | 253,678   | 183,254   |
|                                     | 4,203,369 | 7,316,769 |

|  |             |             |
|--|-------------|-------------|
| Less accumulated depreciation and amortization | (2,191,083) | (1,989,701) |
|  | ¥ 2,012,286 | ¥ 5,327,068 |

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(6) Software Development Costs**

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

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

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

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

**(7) Intangibles**

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

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

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

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

|                          |  |          |
|--------------------------|--|----------|
| Year ending December 31, |  |          |
| 2005                     |  | ¥ 45,892 |
| 2006                     |  | 26,146   |

|      |        |
|------|--------|
| 2007 | 22,466 |
| 2008 | 22,466 |
| 2009 | 22,466 |

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(8) Goodwill**

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

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

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

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

**(9) Derivative Instruments and Hedging Activities**

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

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

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

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

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

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

**(10) Fair Value of Financial Instruments**

The carrying amounts for financial instruments in JPC's consolidated financial statements at December 31, 2003 and 2004 approximate to their estimated fair values. Fair value estimates are made at a specific point in time based on

relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments: *Cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, accrued liabilities, and other current liabilities (non-derivatives)*: The carrying amounts approximate fair value because of the short duration of these instruments.

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

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

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

**(11) Leases**

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

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

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

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

|   |           |
|---|-----------|
| Year ending December 31,  |           |
| 2005  | ¥ 313,917 |
| 2006  | 247,663   |
| 2007  | 224,818   |
| 2008  | 190,961   |
| 2009  | 170,756   |
| Thereafter  | 24,479    |
| Total minimum lease payments  | 1,172,594 |
| Less amount representing interest (at rates ranging from 1.25% to 2.6%) | (59,393)  |

|  |           |
|--|-----------|
| Present value of future minimum capital lease payments | 1,113,201 |
| Less current installments                              | (290,031) |
|  | ¥ 823,170 |

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

**(12) Debt**

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

|                 | 2003     | 2004 |
|-----------------|----------|------|
| Promissory note | ¥ 46,000 | ¥    |

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

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

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

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                          | <b>2004</b>        |
|--------------------------|--------------------|
| Year ending December 31, |                    |
| 2005                     | ¥                  |
| 2006                     | 1,600,000          |
| 2007                     | 1,600,000          |
| 2008                     | 1,800,000          |
| 2009                     |                    |
| <b>Total debt</b>        | <b>¥ 5,000,000</b> |

**(13) Income Taxes**

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

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

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

|                              | <b>2003</b>      | <b>2004</b>      |
|------------------------------|------------------|------------------|
| <b>Deferred tax assets:</b>  |                  |                  |
| Retail inventories           | ¥ 617,970        | ¥ 811,289        |
| Property and equipment       | 195,223          | 297,238          |
| Accrued liabilities          | 372,529          | 330,995          |
| Enterprise tax payable       | 142,709          | 195,588          |
| Unrealized foreign exchange  | 101,371          | 62,581           |
| Equity method investments    | 711,645          | 944,389          |
| Operating loss carryforwards | 1,892,339        | 895,097          |
| Others                       | 270,394          | 320,361          |
|                              | <b>4,304,180</b> | <b>3,857,538</b> |
| Less valuation allowance     | (2,901,655)      | (2,165,372)      |



|                           |  |           |           |           |
|---------------------------|--|-----------|-----------|-----------|
| Total deferred tax assets |  | 1,402,525 |           | 1,692,166 |
| Deferred tax liabilities: |  |           |           |           |
| Intangibles               |  |           |           | (81,380)  |
| Net deferred tax assets   |  | ¥         | 1,402,525 | ¥         |
|                           |  |           |           | 1,610,786 |

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

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which the operating losses are available for use. The Company considers the scheduled reversal of

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefit of these deductible differences, net of the existing valuation allowance. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of the future taxable income during the carryforward period are reduced.

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

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

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42.1%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates became effective for fiscal years beginning on or after April 1, 2004. Consequently, the statutory income tax rate was lowered to approximately 40.7% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005. As a result of the decrease in the statutory tax rate, when compared with the amounts based on the tax rate applied before this revision, the net deferred tax assets decreased by approximately ¥47,119 thousand at December 31, 2004. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a percentage of income before income taxes for the years ended December 31, 2002, 2003 and 2004 is as follows:

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

|                           |       |       |       |
|---------------------------|-------|-------|-------|
| Effective income tax rate | 34.1% | 31.7% | 40.8% |
|---------------------------|-------|-------|-------|

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(14) Accrued Pension and Severance Cost**

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

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

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

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

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

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

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

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

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

**(15) Shareholders Equity**

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

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

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

**(16) Related Party Transactions**

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

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

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

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

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

InteracTV Co., Ltd, affiliate company: pass through of direct-to-home television programming subscription revenues to JPC, costs of programming and distribution payments for transponder services;  
Minority interests in Jupiter Golf Network, Co. Ltd, four companies holding total of 10.6%: television programming advertising revenues;

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

**(17) Concentration of credit risk**

As of December 31, 2003 and 2004, SkyPerfectTV, an unrelated party, and Jupiter Telecommunications Co., Ltd ( JCom ), a related party, agent for sales of programming delivered via satellite and most significant cable system operator, respectively, represented concentrations of credit risk for the Company. For the years ended December 31, 2002, 2003 and 2004, subscription revenues of ¥1,688,119 thousand, ¥2,888,163 thousand and ¥3,095,526 thousand, respectively, received through SkyPerfect TV, accounted for approximately 35%, 45% and 44%, respectively, of subscription revenues, and 5%, 6% and 5%, respectively, of total revenues. As of December 31, 2002, 2003 and 2004, SkyPerfect TV accounted for approximately 7%, 5% and 6%, respectively, of accounts receivable.

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

**(18) Commitments, Other Than Leases**

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

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

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

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

JPC contracts, through subsidiaries and affiliate licensed broadcasting companies, to utilize capacity on three satellites from two transponder service providers. JPC channels contract for a portion of the capacity available on a transponder according to the bandwidth needs of individual channels. Transponder service contracts are generally ten years in duration. Service fees are based on fixed rates or a fixed portion plus a variable portion based on platform subscriber



numbers. Termination is possible on a channel-by-channel basis. One transponder service provider charges termination penalty fees, the other does not charge a fee until the last channel from one licensed broadcaster terminates. Due to the unclear nature of the responsibility for termination fees, commitments are disclosed for the full minimum commitment amounts under the service contracts.

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

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**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Stockholders

Torneos y Competencias S.A.:

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

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

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

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

Finsterbusch Pickenhayn Sibille(\*)

Buenos Aires, Argentina

March 11, 2005

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

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**TORNEOS Y COMPETENCIAS S.A.  
CONSOLIDATED BALANCE SHEETS**

|  | December 31,                       |                    |
|--|------------------------------------|--------------------|
|  | 2004                               | 2003               |
|  | in thousands of<br>Argentine pesos |                    |
| <b>ASSETS</b>  |                                    |                    |
| <b>Current Assets</b>  |                                    |                    |
| Cash   | A\$ 2,641                          | A\$ 2,224          |
| Accounts receivable, net   | 19,007                             | 15,116             |
| Related party receivables (Note 6)                                       | 15,426                             | 9,087              |
| Programming rights, net  | 3,210                              | 7,268              |
| Advances to soccer clubs   | 1,180                              | 2,216              |
| Tax receivables  | 2,805                              | 5,877              |
| Building held for sale (Notes 6.d and 11.a)                              | 2,940                              |                    |
| Prepaid expenses and other current assets                                | 3,466                              | 2,375              |
| <b>Total current assets</b>  | <b>50,675</b>                      | <b>44,163</b>      |
| Related party receivables (Note 6)                                       | 2,885                              | 774                |
| Programming rights, net  | 19,050                             | 9,291              |
| Advances to soccer clubs   | 2,421                              | 4,660              |
| Deferred income taxes (Note 9)   | 1,360                              | 2,054              |
| Investments in affiliates accounted for under the equity method (Note 4) | 21,132                             | 19,185             |
| Property and equipment, net (Note 5)                                     | 15,690                             | 15,914             |
| Other assets   | 1,214                              | 1,165              |
| Assets associated with discontinued operations (Note 6.d)                |                                    | 5,909              |
| <b>TOTAL ASSETS</b>  | <b>A\$ 114,427</b>                 | <b>A\$ 103,115</b> |
| <b>LIABILITIES</b>   |                                    |                    |
| <b>Current Liabilities</b>   |                                    |                    |
| Accounts payable and accrued liabilities                                 | A\$ 28,532                         | A\$ 11,743         |
| Related party liabilities (Note 6)                                       | 6,216                              | 15,880             |
| Debt (Note 7)  |                                    |                    |
| Related party debt   | 8,419                              | 8,306              |
| Third party debt   | 8,333                              | 9,024              |
| Taxes payable  | 6,588                              | 5,331              |
| Deferred income  | 6,906                              | 16,133             |
| Other liabilities  | 4,816                              | 4,203              |
| <b>Total current liabilities</b>   | <b>69,810</b>                      | <b>70,620</b>      |
| Investments in affiliates accounted for under the equity method (Note 4) |                                    | 3,715              |
| Other liabilities  | 2,076                              | 3,476              |

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|  |             |             |
|--|-------------|-------------|
| Liabilities associated with discontinued operations (Note 6.d)                     | 3,700       | 3,208       |
| <b>TOTAL LIABILITIES</b>   | A\$ 75,586  | A\$ 81,019  |
| Commitments and contingencies (Note 10)  |             |             |
| Minority interest in subsidiaries  | (31)        | 8           |
| <b>Stockholders equity:</b>  |             |             |
| Common stock, A\$1 par value. 50,160,000 shares authorized, issued and outstanding | 50,160      | 50,160      |
| Additional paid-in capital   |             | 107,812     |
| Accumulated other comprehensive losses, net of taxes                               | (6,768)     | (6,717)     |
| Legal reserve  |             | 1,597       |
| Accumulated deficit  | (4,520)     | (130,764)   |
| <b>Total stockholders equity</b>   | A\$ 38,872  | A\$ 22,088  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>                                   | A\$ 114,427 | A\$ 103,115 |

See accompanying notes to consolidated financial statements.

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|   |     |            |     |            |     |            |
|---|-----|------------|-----|------------|-----|------------|
| <b>Comprehensive income (loss)</b>                          | A\$ | 16,784     | A\$ | 21,087     | A\$ | (139,808)  |
| Income (loss) per share from continuing operations          |     | 0.33       |     | 0.41       |     | (2.47)     |
| Income (loss) per share from discontinued operations        |     | 0.01       |     | (0.01)     |     | (0.19)     |
| <b>Net income (loss) per share</b>                          |     | 0.34       |     | 0.40       |     | (2.66)     |
| <b>Weighted average number of common shares outstanding</b> |     | 50,160,000 |     | 50,160,000 |     | 50,160,000 |

See accompanying notes to consolidated financial statements.

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**TORNEOS Y COMPETENCIAS S.A.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

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

See accompanying notes to consolidated financial statements.

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**TORNEOS Y COMPETENCIAS S.A.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended December 31,

2004                      2003                      2002

in thousands of Argentine pesos

**Cash flows from operating activities:**

|  |            |            |               |
|--|------------|------------|---------------|
| Income (loss) from continuing operations | A\$ 16,596 | A\$ 20,555 | A\$ (123,928) |
|--|------------|------------|---------------|

Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:

|   |       |     |       |
|---|-------|-----|-------|
| Provision for doubtful accounts and other receivables | 3,798 | 709 | 7,293 |
|---|-------|-----|-------|

|              |       |       |       |
|--------------|-------|-------|-------|
| Depreciation | 1,404 | 1,424 | 1,719 |
|--------------|-------|-------|-------|

|   |          |         |        |
|---|----------|---------|--------|
| Share of (earnings) losses from equity affiliates | (12,901) | (9,427) | 10,589 |
|---|----------|---------|--------|

|                        |  |  |        |
|------------------------|--|--|--------|
| Impairment of goodwill |  |  | 95,663 |
|------------------------|--|--|--------|

|  |      |    |       |
|--|------|----|-------|
| Minority interest in losses (earnings) of subsidiaries | (11) | 16 | (116) |
|--|------|----|-------|

|                      |     |       |       |
|----------------------|-----|-------|-------|
| Deferred tax expense | 694 | 4,170 | 1,698 |
|----------------------|-----|-------|-------|

Changes in operating assets and liabilities, net of the effect of dispositions:

|  |          |        |       |
|--|----------|--------|-------|
| Receivables, programming rights and others | (17,098) | 13,847 | 3,775 |
|--|----------|--------|-------|

|                                       |       |          |        |
|---------------------------------------|-------|----------|--------|
| Payable and other current liabilities | 2,194 | (24,639) | 30,019 |
|---------------------------------------|-------|----------|--------|

|   |         |       |        |
|---|---------|-------|--------|
| Net cash provided by (used in) operating activities | (5,324) | 6,655 | 26,712 |
|---|---------|-------|--------|

**Cash flows from investing activities:**

|                      |         |         |  |
|----------------------|---------|---------|--|
| Capital expenditures | (1,430) | (1,162) |  |
|----------------------|---------|---------|--|

|  |       |  |       |
|--|-------|--|-------|
| Cash distribution from equity affiliates | 7,500 |  | 2,718 |
|--|-------|--|-------|

|  |     |  |     |
|--|-----|--|-----|
| Proceeds from the sale of property and equipment | 250 |  | 732 |
|--|-----|--|-----|

|   |       |         |       |
|---|-------|---------|-------|
| Net cash provided by (used in) investing activities | 6,320 | (1,162) | 3,450 |
|---|-------|---------|-------|

**Cash flows from financing activities:**

|               |       |       |        |
|---------------|-------|-------|--------|
| Debt proceeds | 4,338 | 1,213 | 10,537 |
|---------------|-------|-------|--------|

|                   |         |         |          |
|-------------------|---------|---------|----------|
| Repayment of debt | (4,917) | (5,063) | (43,649) |
|-------------------|---------|---------|----------|

|                                       |       |         |          |
|---------------------------------------|-------|---------|----------|
| Net cash used in financing activities | (579) | (3,850) | (33,112) |
|---------------------------------------|-------|---------|----------|

|  |  |      |     |
|--|--|------|-----|
| Net cash provided by (used in) discontinued operations |  | (26) | 172 |
|--|--|------|-----|

|                                 |     |       |         |
|---------------------------------|-----|-------|---------|
| Net increase (decrease) in cash | 417 | 1,617 | (2,778) |
|---------------------------------|-----|-------|---------|

|                           |       |     |       |
|---------------------------|-------|-----|-------|
| Cash at beginning of year | 2,224 | 607 | 3,385 |
|---------------------------|-------|-----|-------|

|                     |           |           |         |
|---------------------|-----------|-----------|---------|
| Cash at end of year | A\$ 2,641 | A\$ 2,224 | A\$ 607 |
|---------------------|-----------|-----------|---------|

See accompanying notes to consolidated financial statements.





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**TORNEOS Y COMPETENCIAS S.A.**  
**December 31, 2004, 2003 and 2002**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands of Argentine pesos, except as otherwise mentioned)**

**1. Description of Business, Liquidity and Basis of Presentation*****Description of business***

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

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

TyC also has the rights to broadcast friendly summer season tournaments in different Argentine cities through 2007. The Company s principal shareholders are:

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

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

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

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

***Liquidity***

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

and payable, particularly if payment is demanded under the aforementioned bank or LMI loans.

***Basis of presentation***

The accompanying consolidated financial statements include the accounts of TyC and all voting interest entities where TyC exercises a controlling interest through the ownership of a direct or indirect majority voting interest and variable

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

interest entities for which TyC is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. TyC management concluded that the Company holds no interest in entities that meet the definition of variable interest entities pursuant to Financial Accounting Standards Board Interpretation No. 46(R). TyC's operating subsidiaries and TyC's most significant equity affiliates as of December 31, 2004 are set forth below:

**Operating subsidiaries as of December 31, 2004**

Avilacab S.A. ( Avilacab )  
 South American Sports S.A. ( SAS )  
 TyC Minor S.A. ( TyC Minor )

**Significant equity affiliates as of December 31, 2004**

TSC  
 TRISA  
 T&T

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

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

**2. Summary of Significant Accounting Policies**

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

***Use of estimates***

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

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

***Inflation adjustment***

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

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

***Accounts receivable, net***

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance amounted to A\$6,810 and A\$4,521 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is based upon the Company's assessment of probable loss related to uncollectible accounts receivable. A number of factors are used in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic



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conditions and specific customer credit risk. The allowance is maintained until either receipt of payment or collection of the account is no longer being pursued.

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

***Programming rights, net***

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

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

***Investments in affiliates accounted for under the equity method***

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

***Impairment of investments***

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

***Property and equipment, net***

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

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

|   | <b>Estimated<br/>useful<br/>life (years)</b> |
|---|--|
| Buildings                                   | 50   |
| Furniture and fixtures                      | 10   |
| Technical equipment, vehicles and TV studio | 5  |
| Computer hardware                           | 2 to 3                                       |

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

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( Statement 144 ) requires the Company to periodically review the carrying amount of property and

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equipment, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the assets is greater than the expected undiscounted cash flow to be generated by such assets, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sales prices for similar assets or discounting estimated future cash flows using an appropriate discount rate. For purposes of impairment testing, long-lived assets are grouped at the lowest level for which cash flows are largely independent of other assets and liabilities. Assets to be disposed of are carried at the lower of the carrying amount or fair value less costs to sell.

***Building held for sale***

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

***Goodwill***

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

***Impairment of Goodwill***

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

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

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



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

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

***Income Taxes***

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

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

***Minority interest***

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

***Foreign currency translation***

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

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

***Revenue recognition***

The Company's principal sources of revenue are:

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

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

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

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

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Earnings per share***

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

**3. Supplemental Consolidated Statements of Cash Flows Disclosures*****a) Income tax, minimum presumed income tax and interests***

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

***b) Noncash investing and financing activities***

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

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

- (1) The accounts receivable will be settled by AISA by effectively assuming the obligation to repay up to A\$3,700 of principal and interest of a financial debt payable by TyC, currently in default. See Notes 6.d and 7. If as a result of the renegotiation of the loan in default, TyC pays an amount lower than A\$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V. S.A. ( América TV ), a related company of the purchasers.
- (2) Fair value was determined based on an option held by TyC to return the building to CAE for an amount of US\$1 million as per the related sales agreement signed between the parties. See note 6.d.

**4. Investments in Affiliates Accounted for Under the Equity Method**

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

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

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

**TSC**

Summarized financial information for TSC follows:

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

(1)

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

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

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Year ended December 31,**

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

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

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

**TRISA**

Summarized financial information for TRISA follows:

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

|  |             |             |
|--|-------------|-------------|
| Total liabilities and stockholders' equity | A\$ 109,483 | A\$ 108,790 |
|--|-------------|-------------|

- (1) Includes outstanding amounts receivable from Cablevisión, a related party, of A\$3,136 and A\$3,036 at December 31, 2004 and 2003, respectively. See Note 6.
- (2) Includes outstanding amounts payable to TyC of A\$3,202 and A\$2,173 at December 31, 2004 and 2003, respectively. See Note 6.

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Year ended December 31,

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

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

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

**T&T**

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

Summarized financial information for T&T follows:

|                           | December 31, |            |
|---------------------------|--------------|------------|
|                           | 2004         | 2003       |
| <i>Financial Position</i> |              |            |
| Current assets(1)         | A\$ 10,441   | A\$ 11,987 |
| Non-current assets        | 60           | 1,411      |
| Total assets              | A\$ 10,501   | A\$ 13,398 |

|   |            |            |
|---|------------|------------|
| Current portion of long term debt         | A\$        | 288        |
| Other current liabilities(2)              | 6,697      | 19,806     |
| Non-current liabilities                   |            | 735        |
| Stockholders equity                       | 3,804      | (7,431)    |
| Total liabilities and stockholders equity | A\$ 10,501 | A\$ 13,398 |

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

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

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

**5. Property and Equipment**

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

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

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

**6. Related Party Transactions**

(a) **Company's affiliated entities:**

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

(b) **Balances and transactions with related parties**

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

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

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

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

(1) Accounts receivable related to the sale of La Red See item (d) below in this note.  
See Note 7 regarding Related Party Loans.

|                |   | <b>Year ended December 31,</b> |             |             |
|----------------|---|--------------------------------|-------------|-------------|
| <b>Revenue</b> | <b>Transaction description</b>                | <b>2004</b>                    | <b>2003</b> | <b>2002</b> |
| TRISA          | Advertising, Production,<br>Rights and Others | A\$ 14,272                     | 10,119      | 5,713       |
| TSC            | Production and Rights                         | 10,468                         | 10,205      | 8,456       |
| T&T            | Production and Rights                         | 9,239                          | 2,938       | 3,227       |
| América TV     | Production                                    | 1                              | 855         | 343         |
| FPAS           | Advertising, Production,<br>Rights and Others | 40,918                         | 52,679      | 51,783      |

|        |            |            |            |
|--------|------------|------------|------------|
| Others | 43         | 181        | 452        |
|        | A\$ 74,941 | A\$ 76,977 | A\$ 69,974 |

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Year ended December 31,

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

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

**(c) Agreement with FPAS**

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

**(d) Discontinued operations - Sale of La Red**

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

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

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

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

balance sheet as of December 31, 2004.

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

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes certain information related to discontinued operations:

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

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

**7. Debt**

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

|               | <b>2004</b> |               | <b>2003</b> |               |
|---------------|-------------|---------------|-------------|---------------|
| Bank loans    | A\$         | 8,333         | A\$         | 9,024         |
| Related Party |             | 8,419         |             | 8,306         |
| <b>Total</b>  | <b>A\$</b>  | <b>16,752</b> | <b>A\$</b>  | <b>17,330</b> |

**Bank Loans:**

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

|                   |            |                 |
|-------------------|------------|-----------------|
| Past due          | A\$        | 4,927           |
| 2005              | A\$        | 3,406           |
| <b>Total debt</b> | <b>A\$</b> | <b>8,333(1)</b> |

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

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

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

***Related Party Loans:***

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

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

**8. Stockholders Equity**

The Company is subject to certain restrictions on the distribution of profits. Under the Argentine Commercial Law, a minimum of 5% of net income for the year calculated in accordance with Argentine GAAP must be appropriated by resolution of the shareholders to a legal reserve until such reserve reaches 20% of the outstanding capital (common

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

stock plus inflation adjustment of common stock accounts, and additional Paid-in Capital). This legal reserve may be used only to absorb accumulated deficits.

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

**9. Income Tax**

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

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

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

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



**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

**10. Commitments and Contingencies****(a) Long-term Rights Contracts**

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

Year ending December 31:

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

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

**(b) Litigation**

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**11. Subsequent Events****(a) Sale of Building Held for Sale**

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

**(b) Agreement with FPAS**

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

Amounts in thousands of US\$

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

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

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

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

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors  
UnitedGlobalCom, Inc.:

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

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

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

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

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

KPMG LLP

Denver, Colorado  
March 8, 2004

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

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To UnitedGlobalCom, Inc.:

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

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

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

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

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

Arthur Andersen LLP

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

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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED BALANCE SHEETS**

December 31,

2003

2002

in thousands, except par value  
and number of shares

| <b>ASSETS</b>   |           |                  |                     |
|---|-----------|------------------|---------------------|
| <b>Current Assets</b>   |           |                  |                     |
| Cash and cash equivalents   | \$        | 310,361          | \$ 410,185          |
| Restricted cash   |           | 25,052           | 48,219              |
| Marketable equity securities and other investments  |           | 208,459          | 45,854              |
| Subscriber receivables, net of allowance for doubtful accounts of \$51,109 and \$71,485, respectively |           | 140,075          | 136,796             |
| Related party receivables   |           | 1,730            | 15,402              |
| Other receivables   |           | 63,427           | 50,759              |
| Deferred financing costs, net   |           | 2,730            | 62,996              |
| Other current assets, net   |           | 76,812           | 95,340              |
| <b>Total Current Assets</b>   |           | <b>828,646</b>   | <b>865,551</b>      |
| <b>Long-Term Assets</b>   |           |                  |                     |
| Property, plant and equipment, net  |           | 3,342,743        | 3,640,211           |
| Goodwill  |           | 2,519,831        | 1,250,333           |
| Intangible assets, net  |           | 252,236          | 13,776              |
| Other assets, net   |           | 156,215          | 161,723             |
| <b>Total Assets</b>   | <b>\$</b> | <b>7,099,671</b> | <b>\$ 5,931,594</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)**

|  |    |                  |                  |
|--|----|------------------|------------------|
| <b>Current Liabilities</b>                                 |    |                  |                  |
| Not subject to compromise:                                 |    |                  |                  |
| Accounts payable   | \$ | 224,092          | \$ 190,710       |
| Accounts payable, related party                            |    | 1,448            | 1,704            |
| Accrued liabilities  |    | 405,546          | 328,927          |
| Subscriber prepayments and deposits                        |    | 141,108          | 127,553          |
| Short-term debt  |    |                  | 205,145          |
| Notes payable, related party                               |    | 102,728          | 102,728          |
| Current portion of long-term debt                          |    | 310,804          | 3,366,235        |
| Other current liabilities                                  |    | 82,149           | 16,448           |
| <b>Total Current Liabilities not Subject to Compromise</b> |    | <b>1,267,875</b> | <b>4,339,450</b> |
| Subject to compromise:                                     |    |                  |                  |
| Accounts payable and accrued liabilities                   |    | 14,445           | 271,250          |
| Short-term debt  |    | 5,099            |                  |
| Current portion of long-term debt                          |    | 317,372          | 2,812,988        |

|  |              |              |
|--|--------------|--------------|
| Total Current Liabilities Subject to Compromise  | 336,916      | 3,084,238    |
| <b>Long-Term Liabilities</b>   |              |              |
| Not subject to compromise:   |              |              |
| Long-term debt   | 3,615,902    | 472,671      |
| Net negative investment in deconsolidated subsidiaries   |              | 644,471      |
| Deferred taxes   | 124,232      | 107,596      |
| Other long-term liabilities  | 259,493      | 165,896      |
| Total Long-Term Liabilities not Subject to Compromise  | 3,999,627    | 1,390,634    |
| <b>Guarantees, commitments and contingencies (Note 13)</b>   |              |              |
| Minority interests in subsidiaries   | 22,761       | 1,402,146    |
| <b>Stockholders Equity (Deficit)</b>   |              |              |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, nil shares issued and outstanding                               |              |              |
| Class A common stock, \$0.01 par value, 1,000,000,000 shares authorized, 287,350,970 and 110,392,692 shares issued, respectively | 2,873        | 1,104        |
| Class B common stock, \$0.01 par value, 1,000,000,000 shares authorized, 8,870,332 shares issued                                 | 89           | 89           |
| Class C common stock, \$0.01 par value, 400,000,000 shares authorized, 303,123,542 shares issued and outstanding                 | 3,031        | 3,031        |
| Additional paid-in capital   | 5,852,896    | 3,683,644    |
| Deferred compensation  |              | (28,473)     |
| Treasury stock, at cost  | (70,495)     | (34,162)     |
| Accumulated deficit  | (3,372,737)  | (6,797,762)  |
| Accumulated other comprehensive income (loss)  | (943,165)    | (1,112,345)  |
| Total Stockholders Equity (Deficit)  | 1,472,492    | (4,284,874)  |
| Total Liabilities and Stockholders Equity (Deficit)  | \$ 7,099,671 | \$ 5,931,594 |

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

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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

**Year ended December 31,**

**2003                      2002                      2001**

**in thousands, except per share data**

**Statements of Operations**

|   |              |              |                |
|---|--------------|--------------|----------------|
| Revenue   | \$ 1,891,530 | \$ 1,515,021 | \$ 1,561,894   |
| Operating expense   | (768,838)    | (772,398)    | (1,062,394)    |
| Selling, general and administrative expense   | (493,810)    | (446,249)    | (690,743)      |
| Depreciation and amortization   | (808,663)    | (730,001)    | (1,147,176)    |
| Impairment of long-lived assets   | (402,239)    | (436,153)    | (1,320,942)    |
| Restructuring charges and other   | (35,970)     | (1,274)      | (204,127)      |
| Stock-based compensation  | (38,024)     | (28,228)     | (8,818)        |
| Operating income (loss)   | (656,014)    | (899,282)    | (2,872,306)    |
| Interest income, including related party income of \$985, \$2,722 and \$35,336, respectively      | 13,054       | 38,315       | 104,696        |
| Interest expense, including related party expense of \$8,218, \$24,805 and \$58,834, respectively | (327,132)    | (680,101)    | (1,070,830)    |
| Foreign currency exchange gain (loss), net  | 121,612      | 739,794      | (148,192)      |
| Gain on extinguishment of debt  | 2,183,997    | 2,208,782    | 3,447          |
| Gain (loss) on sale of investments in affiliates, net   | 279,442      | 117,262      | (416,803)      |
| Provision for loss on investments   | (14,884)     | (27,083)     | (342,419)      |
| Other (expense) income, net   | (14,884)     | (93,749)     | 76,907         |
| Income (loss) before income taxes and other items   | 1,600,075    | 1,403,938    | (4,665,500)    |
| Reorganization expense, net   | (32,009)     | (75,243)     |                |
| Income tax (expense) benefit, net   | (50,344)     | (201,182)    | 40,661         |
| Minority interests in subsidiaries, net   | 183,182      | (67,103)     | 496,515        |
| Share in results of affiliates, net   | 294,464      | (72,142)     | (386,441)      |
| Income (loss) before cumulative effect of change in accounting principle                          | 1,995,368    | 988,268      | (4,514,765)    |
| Cumulative effect of change in accounting principle   |              | (1,344,722)  | 20,056         |
| Net income (loss)   | \$ 1,995,368 | \$ (356,454) | \$ (4,494,709) |
| Earnings per share (Note 20):   |              |              |                |
| Basic net income (loss) per share before cumulative effect of change in accounting principle      | \$ 7.41      | \$ 2.29      | \$ (41.47)     |
|   |              | (3.13)       | 0.18           |

|  |    |      |                      |
|--|----|------|----------------------|
| Cumulative effect of change in accounting principle  |    |      |                      |
| Basic net income (loss) per share  | \$ | 7.41 | \$ (0.84) \$ (41.29) |
| Diluted net income (loss) per share before cumulative effect of change in accounting principle | \$ | 7.41 | \$ 2.29 \$ (41.47)   |
| Cumulative effect of change in accounting principle  |    |      | (3.12) 0.18          |
| Diluted net income (loss) per share  | \$ | 7.41 | \$ (0.83) \$ (41.29) |

**Statements of Comprehensive Income**

|  |    |           |                |                |
|--|----|-----------|----------------|----------------|
| Net income (loss)  | \$ | 1,995,368 | \$ (356,454)   | \$ (4,494,709) |
| Other comprehensive income, net of tax:                    |    |           |                |                |
| Foreign currency translation adjustments                   |    | 61,440    | (864,104)      | 11,157         |
| Change in fair value of derivative assets                  |    | 10,616    | 13,443         | (24,059)       |
| Change in unrealized gain on available-for-sale securities |    | 97,318    | 4,029          | 37,526         |
| Other  |    | (194)     | (77)           | 271            |
| Comprehensive income (loss)                                | \$ | 2,164,548 | \$ (1,203,163) | \$ (4,469,814) |

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

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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**

|  | Class A<br>Common Stock |          | Class B<br>Common Stock |        | Class C<br>Common Stock |          | Additional<br>Paid-In<br>Capital | Deferred<br>Compensation |
|--|-------------------------|----------|-------------------------|--------|-------------------------|----------|----------------------------------|--------------------------|
|  | Shares                  | Amount   | Shares                  | Amount | Shares                  | Amount   |                                  |                          |
| <b>in thousands, except number of shares</b>   |                         |          |                         |        |                         |          |                                  |                          |
| December 31,<br>2002   | 110,392,692             | \$ 1,104 | 8,870,332               | \$ 89  | 303,123,542             | \$ 3,031 | \$ 3,683,644                     | \$ (28,473)              |
| Issuance of<br>Class A common<br>stock for<br>subsidiary<br>preference shares                    | 2,155,905               | 21       |                         |        |                         |          | 6,082                            |                          |
| Issuance of<br>Class A common<br>stock in<br>connection with<br>stock option plans               | 311,454                 | 3        |                         |        |                         |          | 1,351                            |                          |
| Issuance of<br>Class A common<br>stock in<br>connection with<br>401(k) plan                      | 58,272                  | 1        |                         |        |                         |          | 258                              |                          |
| Issuance of<br>common stock by<br>UGC Europe for<br>debt and other<br>liabilities                |                         |          |                         |        |                         |          | 966,362                          |                          |
| Equity<br>transactions of<br>subsidiaries  |                         |          |                         |        |                         |          | (129,904)                        | 1,896                    |
| Amortization of<br>deferred<br>compensation  |                         |          |                         |        |                         |          |                                  | 26,577                   |
| Receipt of<br>common stock in<br>satisfaction of<br>executive loans                              |                         |          |                         |        |                         |          |                                  |                          |
| Issuance of<br>Class A common<br>stock in<br>connection with<br>the UGC Europe<br>exchange offer | 174,432,647             | 1,744    |                         |        |                         |          | 1,325,103                        |                          |
| Net income   |                         |          |                         |        |                         |          |                                  |                          |

|   |             |          |           |       |             |          |              |    |
|---|-------------|----------|-----------|-------|-------------|----------|--------------|----|
| Foreign currency translation adjustments                            |             |          |           |       |             |          |              |    |
| Change in fair value of derivative assets                           |             |          |           |       |             |          |              |    |
| Unrealized gain (loss) on available-for-sale securities             |             |          |           |       |             |          |              |    |
| Amortization of cumulative effect of change in accounting principle |             |          |           |       |             |          |              |    |
| December 31, 2003   | 287,350,970 | \$ 2,873 | 8,870,332 | \$ 89 | 303,123,542 | \$ 3,031 | \$ 5,852,896 | \$ |

[Additional columns below]

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

|  | Class A<br>Treasury Stock |             | Class B<br>Treasury Stock |        | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total          |                |
|--|---------------------------|-------------|---------------------------|--------|---|----------------|----------------|
|  | Shares                    | Amount      | Shares                    | Amount | Deficit   |                |                |
| <b>in thousands, except number of shares</b>                           |                           |             |                           |        |   |                |                |
| December 31, 2002  | 7,404,240                 | \$ (34,162) |                           | \$     | \$ (6,797,762)  | \$ (1,112,345) | \$ (4,284,874) |
| Issuance of Class A common stock for subsidiary preference shares      |                           |             |                           |        | 1,423,102   |                | 1,429,205      |
| Issuance of Class A common stock in connection with stock option plans |                           |             |                           |        |   |                | 1,354          |
| Issuance of Class A common stock in connection with 401(k) plan        |                           |             |                           |        |   |                | 259            |
| Issuance of common stock by UGC Europe for debt and other liabilities  |                           |             |                           |        |   |                | 966,362        |
| Equity transactions of subsidiaries                                    |                           |             |                           |        | 6,555   |                | (121,453)      |

|   |            |             |         |    |                |              |              |
|---|------------|-------------|---------|----|----------------|--------------|--------------|
| Amortization of deferred compensation   |            |             |         |    |                |              | 26,577       |
| Receipt of common stock in satisfaction of executive loans                        | 188,792    |             | 672,316 |    |                |              |              |
| Issuance of Class A common stock in connection with the UGC Europe exchange offer | 4,780,611  | (36,333)    |         |    |                |              | 1,290,514    |
| Net income  |            |             |         |    | 1,995,368      |              | 1,995,368    |
| Foreign currency translation adjustments  |            |             |         |    |                | 61,440       | 61,440       |
| Change in fair value of derivative assets   |            |             |         |    |                | 10,616       | 10,616       |
| Unrealized gain (loss) on available-for-sale securities                           |            |             |         |    |                | 97,318       | 97,318       |
| Amortization of cumulative effect of change in accounting principle               |            |             |         |    |                | (194)        | (194)        |
| December 31, 2003   | 12,373,643 | \$ (70,495) | 672,316 | \$ | \$ (3,372,737) | \$ (943,165) | \$ 1,472,492 |

*Accumulated Other Comprehensive Income (Loss)*

|  | <b>December 31,</b> |                |
|--|---------------------|----------------|
|  | <b>2003</b>         | <b>2002</b>    |
|  | <b>in thousands</b> |                |
| Foreign currency translation adjustments | \$ (1,057,074)      | \$ (1,118,514) |
| Fair value of derivative assets          |                     | (10,616)       |
| Other                                    | 113,909             | 16,785         |
| Total                                    | \$ (943,165)        | \$ (1,112,345) |

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

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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

|  | Series C<br>Preferred Stock |            | Series D<br>Preferred Stock |            | Class A<br>Common Stock |        | Class B<br>Common Stock |        | Co    |
|--|-----------------------------|------------|-----------------------------|------------|-------------------------|--------|-------------------------|--------|-------|
|  | Shares                      | Amount     | Shares                      | Amount     | Shares                  | Amount | Shares                  | Amount | Sh    |
| <b>in thousands, except number of shares</b>   |                             |            |                             |            |                         |        |                         |        |       |
| Balances,<br>December 31, 2001   | 425,000                     | \$ 425,000 | 287,500                     | \$ 287,500 | 98,042,205              | \$ 981 | 19,027,134              | \$ 190 |       |
| Accrual of dividends<br>on Series B, C and D<br>convertible preferred<br>stock             |                             |            |                             |            |                         |        |                         |        |       |
| Merger/reorganization<br>transaction   | (425,000)                   | (425,000)  | (287,500)                   | (287,500)  | 11,628,674              | 116    | (10,156,802)            | (101)  | 21,8  |
| Issuance of Class C<br>common stock for<br>financial assets                                |                             |            |                             |            |                         |        |                         |        | 281,2 |
| Issuance of Class A<br>common stock in<br>exchange for<br>remaining interest in<br>Old UGC |                             |            |                             |            | 600,000                 | 6      |                         |        |       |
| Issuance of Class A<br>common stock in<br>connection with 401(k)<br>plan                   |                             |            |                             |            | 121,813                 | 1      |                         |        |       |
| Equity transactions of<br>subsidiaries and other   |                             |            |                             |            |                         |        |                         |        |       |
| Amortization of<br>deferred<br>compensation  |                             |            |                             |            |                         |        |                         |        |       |
| Purchase of treasury<br>shares   |                             |            |                             |            |                         |        |                         |        |       |
| Net income   |                             |            |                             |            |                         |        |                         |        |       |
| Foreign currency<br>translation<br>adjustments   |                             |            |                             |            |                         |        |                         |        |       |
| Change in fair value of<br>derivative<br>assets  |                             |            |                             |            |                         |        |                         |        |       |
| Change in unrealized<br>gain on<br>available-for-sale<br>securities                        |                             |            |                             |            |                         |        |                         |        |       |

Amortization of  
cumulative effect of  
change in accounting  
principle

|                                |    |    |             |          |           |       |       |
|--------------------------------|----|----|-------------|----------|-----------|-------|-------|
| Balances,<br>December 31, 2002 | \$ | \$ | 110,392,692 | \$ 1,104 | 8,870,332 | \$ 89 | 303,1 |
|--------------------------------|----|----|-------------|----------|-----------|-------|-------|

[Additional columns below]

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

|  | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Deferred<br/>Compensation</b> | <b>Treasury Stock<br/>Shares</b> | <b>Treasury Stock<br/>Amount</b> | <b>Accumulated<br/>Deficit</b> | <b>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Total</b>   |
|--|---|----------------------------------|----------------------------------|----------------------------------|--------------------------------|--|----------------|
| <b>in thousands, except number of shares</b>   |   |                                  |                                  |                                  |                                |  |                |
| Balances,<br>December 31, 2001   | \$ 1,537,944                              | \$ (74,185)                      | 5,604,948                        | \$ (29,984)                      | \$ (6,437,290)                 | \$ (265,636)   | \$ (4,555,480) |
| Accrual of dividends<br>on Series B, C and D<br>convertible preferred<br>stock             | (156)                                     |                                  |                                  |                                  | (4,018)                        |  | (4,174)        |
| Merger/reorganizatio<br>transaction  | 770,448                                   |                                  | (35,708)                         | 923                              |                                |  | 59,104         |
| Issuance of Class C<br>common stock for<br>financial assets                                | 1,396,469                                 |                                  |                                  |                                  |                                |  | 1,399,282      |
| Issuance of Class A<br>common stock in<br>exchange for<br>remaining interest in<br>Old UGC | (6)                                       |                                  |                                  |                                  |                                |  |                |
| Issuance of Class A<br>common stock in<br>connection with<br>401(k) plan                   | 340                                       |                                  |                                  |                                  |                                |  | 341            |
| Equity transactions of<br>subsidiaries and other   | (21,395)                                  | 12,794                           |                                  |                                  |                                |  | (8,601)        |
| Amortization of<br>deferred<br>compensation  |   | 32,918                           |                                  |                                  |                                |  | 32,918         |
| Purchase of treasury<br>shares   |   |                                  | 1,835,000                        | (5,101)                          |                                |  | (5,101)        |
| Net income   |   |                                  |                                  |                                  | (356,454)                      |  | (356,454)      |
| Foreign currency<br>translation<br>adjustments   |   |                                  |                                  |                                  |                                | (864,104)  | (864,104)      |
|  |   |                                  |                                  |                                  |                                | 13,443   | 13,443         |

Change in fair value  
of derivative  
assets

|   |  |  |  |  |  |  |  |       |       |
|---|--|--|--|--|--|--|--|-------|-------|
| Change in unrealized<br>gain on<br>available-for-sale<br>securities |  |  |  |  |  |  |  | 4,029 | 4,029 |
|---|--|--|--|--|--|--|--|-------|-------|

|  |  |  |  |  |  |  |  |      |      |
|--|--|--|--|--|--|--|--|------|------|
| Amortization of<br>cumulative effect of<br>change in accounting<br>principle |  |  |  |  |  |  |  | (77) | (77) |
|--|--|--|--|--|--|--|--|------|------|

|                                |              |             |           |             |                |                |                |  |  |
|--------------------------------|--------------|-------------|-----------|-------------|----------------|----------------|----------------|--|--|
| Balances,<br>December 31, 2002 | \$ 3,683,644 | \$ (28,473) | 7,404,240 | \$ (34,162) | \$ (6,797,762) | \$ (1,112,345) | \$ (4,284,874) |  |  |
|--------------------------------|--------------|-------------|-----------|-------------|----------------|----------------|----------------|--|--|

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

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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)**

|  | Series C<br>Preferred Stock |            | Series D<br>Preferred Stock |            | Class A<br>Common Stock |        | Class B<br>Common Stock |        |
|--|-----------------------------|------------|-----------------------------|------------|-------------------------|--------|-------------------------|--------|
|  | Shares                      | Amount     | Shares                      | Amount     | Shares                  | Amount | Shares                  | Amount |
| in thousands, except number of shares  |                             |            |                             |            |                         |        |                         |        |
| Balances,<br>December 31, 2000   | 425,000                     | \$ 425,000 | 287,500                     | \$ 287,500 | 83,820,633              | \$ 838 | 19,221,940              | \$ 192 |
| Exchange of<br>Class B common<br>stock for Class A<br>common stock   |                             |            |                             |            | 194,806                 | 2      | (194,806)               | (2)    |
| Issuance of<br>Class A common<br>stock in connection<br>with stock option<br>plans and<br>401(k) plan                      |                             |            |                             |            | 76,504                  | 1      |                         |        |
| Issuance of<br>Class A common<br>stock for cash  |                             |            |                             |            | 11,991,018              | 120    |                         |        |
| Accrual of<br>dividends on<br>Series B, C and D<br>convertible<br>preferred stock  |                             | 14,875     |                             | 10,063     |                         |        |                         |        |
| Issuance of<br>Class A common<br>stock in lieu of<br>cash dividends on<br>Series C and D<br>convertible<br>preferred stock |                             | (14,875)   |                             | (10,063)   | 1,959,244               | 20     |                         |        |
| Equity transactions<br>of subsidiaries and<br>others   |                             |            |                             |            |                         |        |                         |        |
| Amortization of<br>deferred<br>compensation  |                             |            |                             |            |                         |        |                         |        |
| Loans to related<br>parties,<br>collateralized with<br>common shares<br>and options  |                             |            |                             |            |                         |        |                         |        |
| Net loss   |                             |            |                             |            |                         |        |                         |        |

|   |         |            |         |            |            |        |            |        |  |
|---|---------|------------|---------|------------|------------|--------|------------|--------|--|
| Foreign currency translation adjustments                            |         |            |         |            |            |        |            |        |  |
| Change in fair value of derivative assets                           |         |            |         |            |            |        |            |        |  |
| Unrealized gain (loss) on available-for-sale securities             |         |            |         |            |            |        |            |        |  |
| Cumulative effect of change in accounting principle                 |         |            |         |            |            |        |            |        |  |
| Amortization of cumulative effect of change in accounting principle |         |            |         |            |            |        |            |        |  |
| Balances, December 31, 2001   | 425,000 | \$ 425,000 | 287,500 | \$ 287,500 | 98,042,205 | \$ 981 | 19,027,134 | \$ 190 |  |

[Additional columns below]

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

|  | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Deferred<br/>Compensation</b> | <b>Treasury Stock<br/>Shares</b> | <b>Treasury Stock<br/>Amount</b> | <b>Accumulated<br/>Deficit</b> | <b>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Total</b> |
|--|---|----------------------------------|----------------------------------|----------------------------------|--------------------------------|--|--------------|
| <b>in thousands, except number of shares</b>   |   |                                  |                                  |                                  |                                |  |              |
| Balances, December 31, 2000  | \$ 1,531,593                              | \$ (117,136)                     | 5,604,948                        | \$ (29,984)                      | \$ (1,892,706)                 | \$ (290,531)   | \$ (85,234)  |
| Exchange of Class B common stock for Class A common stock                              |   |                                  |                                  |                                  |                                |  |              |
| Issuance of Class A common stock in connection with stock option plans and 401(k) plan | 386                                       |                                  |                                  |                                  |                                |  | 387          |
| Issuance of Class A common stock for cash  | 19,905                                    |                                  |                                  |                                  |                                |  | 20,025       |

|  |              |             |           |             |                |              |                |
|--|--------------|-------------|-----------|-------------|----------------|--------------|----------------|
| Accrual of dividends on Series B, C and D convertible preferred stock                                    | (1,873)      |             |           | (49,875)    |                |              | (26,810)       |
| Issuance of Class A common stock in lieu of cash dividends on Series C and D convertible preferred stock | 24,918       |             |           |             |                |              |                |
| Equity transactions of subsidiaries and others   | (29,122)     | 22,159      |           |             |                |              | (6,963)        |
| Amortization of deferred compensation  | (1,292)      | 20,792      |           |             |                |              | 19,500         |
| Loans to related parties, collateralized with common shares and options                                  | (6,571)      |             |           |             |                |              | (6,571)        |
| Net loss   |              |             |           | (4,494,709) |                |              | (4,494,709)    |
| Foreign currency translation adjustments   |              |             |           |             | 11,157         |              | 11,157         |
| Change in fair value of derivative assets  |              |             |           |             | (24,059)       |              | (24,059)       |
| Unrealized gain (loss) on available-for-sale securities  |              |             |           |             | 37,526         |              | 37,526         |
| Cumulative effect of change in accounting principle  |              |             |           |             | 523            |              | 523            |
| Amortization of cumulative effect of change in accounting principle                                      |              |             |           |             | (252)          |              | (252)          |
| Balances, December 31, 2001  | \$ 1,537,944 | \$ (74,185) | 5,604,948 | \$ (29,984) | \$ (6,437,290) | \$ (265,636) | \$ (4,555,480) |

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



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**UNITEDGLOBALCOM, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended December 31,

|   | 2003         | 2002         | 2001           |
|---|--------------|--------------|----------------|
|   | in thousands |              |                |
| <b>Cash Flows from Operating Activities</b>   |              |              |                |
| Net income (loss)   | \$ 1,995,368 | \$ (356,454) | \$ (4,494,709) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: |              |              |                |
| Stock-based compensation  | 38,024       | 28,228       | 8,818          |
| Depreciation and amortization   | 808,663      | 730,001      | 1,147,176      |
| Impairment of long-lived assets   | 402,239      | 437,427      | 1,525,069      |
| Accretion of interest on senior notes and amortization of deferred financing costs      | 50,733       | 234,247      | 492,387        |
| Unrealized foreign exchange (gains) losses, net   | (84,258)     | (745,169)    | 125,722        |
| Loss on derivative securities   | 12,508       | 115,458      |                |
| Gain on extinguishment of debt  | (2,183,997)  | (2,208,782)  | 3,447          |
| (Gain) loss on sale of investments in affiliates and other assets, net                  | (279,442)    | (117,262)    | 416,803        |
| Provision for loss on investments   |              | 27,083       | 342,419        |
| Reorganization expenses, net  | 32,009       | 75,243       |                |
| Deferred tax provision  | (18,161)     | 104,068      | (43,167)       |
| Minority interests in subsidiaries, net   | (183,182)    | 67,103       | (496,515)      |
| Share in results of affiliates, net   | (294,464)    | 72,142       | 386,441        |
| Cumulative effect of change in accounting principle                                     |              | 1,344,722    | (20,056)       |
| Change in assets and liabilities:   |              |              |                |
| Change in receivables, net  | 49,238       | 42,175       | 68,137         |
| Change in other assets  | (8,368)      | 4,628        | 2,489          |
| Change in accounts payable, accrued liabilities and other                               | 55,182       | (148,466)    | (135,604)      |
| Net cash flows from operating activities  | 392,092      | (293,608)    | (671,143)      |
| <b>Cash Flows from Investing Activities</b>   |              |              |                |
| Purchase of short-term liquid investments   | (1,000)      | (117,221)    | (1,691,751)    |
| Proceeds from sale of short-term liquid investments                                     | 45,561       | 152,405      | 1,907,171      |
| Restricted cash released (deposited), net   | 24,825       | 40,357       | (74,996)       |
| Investments in affiliates and other investments   | (20,931)     | (2,590)      | (60,654)       |
| Proceeds from sale of investments in affiliated companies                               | 45,447       |              | 120,416        |
| New acquisitions, net of cash acquired  | (2,150)      | (22,617)     | (39,950)       |
| Capital expenditures  | (333,124)    | (335,192)    | (996,411)      |
| Purchase of interest rate caps  | (9,750)      |              |                |
| Settlement of interest rate caps  | (58,038)     |              |                |
| Other   | 7,806        | 27,595       | (45,192)       |



|  |              |              |            |
|--|--------------|--------------|------------|
| Net cash flows from investing activities                 | (301,354)    | (257,263)    | (881,367)  |
| <b>Cash Flows from Financing Activities</b>              |              |              |            |
| Issuance of common stock                                 | 1,354        | 200,006      | 24,054     |
| Proceeds from notes payable to shareholder               |              | 102,728      |            |
| Proceeds from short-term and long-term borrowings        | 23,161       | 42,742       | 1,673,981  |
| Retirement of existing senior notes                      |              | (231,630)    | (261,309)  |
| Financing costs  | (2,233)      | (18,293)     | (17,771)   |
| Repayments of short-term and long-term borrowings        | (233,506)    | (90,331)     | (766,950)  |
| Other  |              |              | (6,571)    |
| Net cash flows from financing activities                 | (211,224)    | 5,222        | 645,434    |
| <b>Effects of Exchange Rates on Cash</b>                 | 20,662       | 35,694       | (49,612)   |
| <b>Decrease in Cash and Cash Equivalents</b>             | (99,824)     | (509,955)    | (956,688)  |
| <b>Cash and Cash Equivalents, Beginning of Year</b>      | 410,185      | 920,140      | 1,876,828  |
| <b>Cash and Cash Equivalents, End of Year</b>            | \$ 310,361   | \$ 410,185   | \$ 920,140 |
| <b>Supplemental Cash Flow Disclosure</b>                 |              |              |            |
| Cash paid for reorganization expenses                    | \$ 27,084    | \$ 33,488    | \$         |
| Cash paid for interest                                   | \$ 185,591   | \$ 304,274   | \$ 519,221 |
| Cash paid for income taxes                               | \$ 1,947     | \$ 14,260    | \$         |
| <b>Non-Cash Investing and Financing Activities</b>       |              |              |            |
| Issuance of subsidiary common stock for financial assets | \$ 966,362   | \$           | \$         |
| Issuance of common stock for acquisitions                | \$ 1,326,847 | \$ 1,206,441 | \$         |

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

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**UNITEDGLOBALCOM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Nature of Operations**

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

**2. Summary of Significant Accounting Policies*****Use of Estimates***

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

***Principles of Consolidation***

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

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

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

Marketable equity securities and other investments are classified as available-for-sale and reported at fair value. Unrealized gains and losses on these marketable equity securities and other investments are reported as a separate component of stockholders' equity. Declines in the fair value of marketable equity securities and other investments that are other than temporary are recognized in the statement of operations, thus establishing a new cost basis for such investment. These marketable equity securities and other investments are evaluated on a quarterly basis to determine whether declines in the fair value of these securities are other than temporary. This quarterly evaluation consists of reviewing, among other things, the historical volatility of the price of each security and any market and company

specific factors related to each security. Declines in the fair value of investments below cost basis for a period of less than six months are considered to be temporary. Declines in the fair value of investments for a period of six to nine  
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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

months are evaluated on a case-by-case basis to determine whether any company or market-specific factors exist that would indicate that such declines are other than temporary. Declines in the fair value of investments below cost basis for greater than nine months are considered other than temporary and are recorded as charges to the statement of operations, absent specific factors to the contrary.

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

***Allowance for Doubtful Accounts***

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

***Property, Plant and Equipment***

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

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

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

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

***Goodwill and Other Intangible Assets***

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

These events or circumstances may include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Investments in Affiliates, Accounted for under the Equity Method***

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

***Derivative Financial Instruments***

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

***Subscriber Prepayments and Deposits***

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

***Cable Network Revenue and Related Costs***

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

***Other Revenue and Related Costs***

We recognize revenue from the provision of direct-to-home satellite services, or DTH, telephone and data services to business customers outside of our cable network in the period the related services are provided. Installation revenue

(including reconnect fees) related to these services outside of our cable network is deferred and amortized over the

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

average expected subscriber life. Costs related to reconnections and disconnections are recognized in the statement of operations as incurred.

**Concentration of Credit Risk**

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

**Stock-Based Compensation**

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

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

(1) Not including SARs. Compensation expense for SARs is the same under APB 25 and SFAS 123. Stock-based compensation is recorded as a result of applying variable-plan accounting to stock appreciation rights ( SARs ) granted to employees and vesting of certain of our fixed stock-based compensation plans. Under variable-plan accounting, compensation expense (credit) is recognized at each financial statement date for vested SARs based on the



difference between the grant price and the estimated fair value of our Class A common stock, until the SARs are exercised or expire, or until the fair value is less than the original grant price. Under fixed-plan accounting, deferred compensation is recorded for the excess of fair value over the exercise price of such options at the date of grant. This deferred compensation is then recognized in the statement of operations ratably over the vesting period of the options.

***Income Taxes***

Income taxes are accounted for under the asset and liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and income tax basis of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards, using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if we believe it more likely than not such net

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax liabilities related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration are not recognized until it becomes apparent that such amounts will reverse in the foreseeable future.

***Basic and Diluted Net Income (Loss) Per Share***

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

***Foreign Operations and Foreign Currency Exchange Rate Risk***

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

***Reclassifications***

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

**3. Acquisitions, Dispositions and Other****2003*****Acquisition of UPC Preference Shares***

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value \$1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value \$1.00 per share, at an exercise price of \$42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common

stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth  
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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400 preference shares A of UPC, nominal value 1.00 per share, and warrants to purchase 1,165,352 ordinary shares A of UPC, nominal value 1.00 per share, at an exercise price of 42.546 per ordinary share. A gain of \$610.9 million was recognized from the purchase of these preference shares for the difference between fair value of the consideration given and book value (including accrued dividends) of these preference shares at the transaction date. This gain is reflected in the consolidated statement of stockholders' equity (deficit).

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

*United Pan-Europe Communications N.V. Reorganization*

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

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

*UGC Europe Exchange Offer and Merger*

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

own all of the outstanding equity securities of UGC Europe.

We valued the exchange offer and merger for accounting purposes at \$1.315 billion, based on the issuance of our Class A common stock at the average closing price of such stock for the five days surrounding November 12, 2003, the date we announced the revised and final terms of the exchange offer, and our estimated transaction costs, consisting primarily of dealer-manager, legal and accounting fees, printing costs, other external costs and other purchase

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

consideration directly related to the exchange offer and merger. This total value includes \$19.7 million related to the value of shares subject to appraisal rights that were withdrawn in January 2004. This amount is included in other current liabilities in the accompanying consolidated balance sheet.

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

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

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

Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;

Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and

Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe s and our separate corporate functions into a better integrated, unitary corporate organization.

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

|   | <b>Year ended December 31,</b>                              |              |
|---|---|--------------|
|   | <b>2003</b>   | <b>2002</b>  |
|   | <b>in thousands, except share<br/>and per share amounts</b> |              |
| Revenue   | \$ 1,891,530  | \$ 1,515,021 |
| Income before cumulative effect of change in accounting principle | \$ 1,805,225  | \$ 1,014,908 |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Net income (loss)  | \$ | 1,805,225 | \$ | (329,814) |
| Earnings per share:  |    |           |    |           |
| Basic net income (loss) per share before cumulative effect of change in accounting principle   | \$ | 4.99      | \$ | 1.63      |
| Cumulative effect of change in accounting principle  |    |           |    | (2.17)    |
| Basic net income (loss) per share  | \$ | 4.99      | \$ | (0.54)    |
| Diluted net income (loss) per share before cumulative effect of change in accounting principle | \$ | 4.98      | \$ | 1.63      |
| Cumulative effect of change in accounting principle  |    |           |    | (2.17)    |
| Diluted net income (loss) per share  | \$ | 4.98      | \$ | (0.54)    |

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**UNITEDGLOBALCOM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2002**

*Merger Transaction*

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

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

Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;

Certain long-term stockholders of Old UGC (the *Founders*) transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and

Four of the Founders (the *Principal Founders*) contributed \$3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC's directors.

As a result of the merger transaction:

Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;

Each share of Old UGC's Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;

The shares of Old UGC's Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC's preferred stock would have received had they converted their preferred stock immediately prior to the merger;

Liberty had the right to elect four of our 12 directors;

The Founders had the effective voting power to elect eight of our 12 directors; and

We had the right to elect half of Old UGC's directors and the Principal Founders had the right to elect the other half of Old UGC's directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of \$891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;

Liberty contributed \$200.0 million in cash to us;

Liberty contributed to us certain UPC bonds (the *United UPC Bonds*) and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and



In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

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

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

Our assumption of approximately \$304.6 million of indebtedness owed by Liberty to Old UGC; and

Cash in the amount of approximately \$143.9 million.

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

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

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

|   | <b>Fair value<br/>at acquisition</b> | <b>Book value</b>   | <b>Gain/(loss)</b>  |
|---|--------------------------------------|---------------------|---------------------|
|   | <b>in thousands</b>                  |                     |                     |
| Old UGC Senior Notes                        | \$ 540,149                           | \$ 1,210,974        | \$ 670,825          |
| United UPC Bonds                            | 312,831                              | 1,451,519           | 1,138,688           |
| UPC Exchangeable Loan                       | 891,671                              | 891,671             |                     |
| Write-off of deferred financing costs       |                                      | (52,224)            | (52,224)            |
| <b>Total gain on extinguishment of debt</b> | <b>\$ 1,744,651</b>                  | <b>\$ 3,501,940</b> | <b>\$ 1,757,289</b> |

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

*Transfer of German Shares*

Until July 30, 2002, UPC had a 51% ownership interest in EWT/ TSS Group through its 51% owned subsidiary, UPC Germany. Pursuant to the agreement by which UPC acquired EWT/ TSS Group, UPC was required to fulfill a contribution obligation no later than March 2003, by contributing certain assets amounting to approximately 358.8 million. If UPC failed to make the contribution by such date or in certain circumstances such as a material

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default by UPC under its financing agreements, the minority shareholders of UPC Germany could call for 22.3% of the ownership interest in UPC Germany in exchange for the euro equivalent of 1 Deutsche Mark. On March 5, 2002, UPC received the holders' notice of exercise. On July 30, 2002, UPC completed the transfer of 22.3% of UPC Germany to the minority shareholders in return for the cancellation of the contribution obligation. UPC now owns 28.7% of UPC Germany, with the former minority shareholders owning the remaining 71.3%. UPC Germany is governed by a new shareholders agreement. For accounting purposes, this transaction resulted in the deconsolidation of UPC Germany effective August 1, 2002, and recognition of a gain from the reversal of the net negative investment in UPC Germany. Details of the assets and liabilities of UPC Germany as of August 1, 2002 were as follows (in thousands):

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

*Other*

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

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

**2001**

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

**4. Marketable Equity Securities and Other Investments**

|                           | December 31, 2003   |                 | December 31, 2002 |                 |
|---------------------------|---------------------|-----------------|-------------------|-----------------|
|                           | Fair value          | Unrealized gain | Fair value        | Unrealized gain |
|                           | <b>in thousands</b> |                 |                   |                 |
| SBS common stock          | \$ 195,600          | \$ 105,790      | \$                | \$              |
| Other equity securities   | 10,725              | 6,098           |                   |                 |
| Corporate bonds and other | 2,134               | 856             | 45,854            | 14              |

|       |            |            |           |       |
|-------|------------|------------|-----------|-------|
| Total | \$ 208,459 | \$ 112,744 | \$ 45,854 | \$ 14 |
|-------|------------|------------|-----------|-------|

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

We own 6.0 million shares of SBS. Historically, our common share ownership interest in SBS was accounted for under the equity method of accounting, as we were able to exert significant influence. On December 19, 2003, SBS redeemed certain of its outstanding debt and as a result issued new common shares to the note holders which reduced our

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ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

**5. Property, Plant and Equipment**

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

(1) See Note 17.

(2) See Note 3.

(3) Consists primarily of network infrastructure and equipment.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Goodwill**

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

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

(1) See Note 3.

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

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Pro Forma Information***

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

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



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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**7. Intangible Assets**

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

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

(1) See Note 17.

|                      | <b>Year ended December 31,</b> |             |             |
|----------------------|--------------------------------|-------------|-------------|
|                      | <b>2003</b>                    | <b>2002</b> | <b>2001</b> |
|                      | <b>in thousands</b>            |             |             |
| Amortization expense | \$ 3,726                       | \$ 16,632   | \$ 19,136   |

**Year ended December 31,**

|                                | <b>2004</b> | <b>2005</b> | <b>2006</b>         | <b>2007</b> | <b>2008</b> | <b>Thereafter</b> |
|--------------------------------|-------------|-------------|---------------------|-------------|-------------|-------------------|
|                                |             |             | <b>in thousands</b> |             |             |                   |
| Estimated amortization expense | \$ 33,043   | \$ 31,816   | \$ 30,515           | \$ 30,515   | \$ 30,515   | \$ 72,486         |

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Long-Term Debt**

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

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

**UPC Distribution Bank Facility**

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

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

| <b>Tranche</b>      | <b>Currency/tranche amount</b> |                   | <b>Amount outstanding December 31, 2003</b> |                   | <b>Interest rate(4)</b> | <b>Description</b>    | <b>Payment begins</b> | <b>Final maturity</b> |
|---------------------|--------------------------------|-------------------|---|-------------------|-------------------------|-----------------------|-----------------------|-----------------------|
|                     | <b>Euros</b>                   | <b>US dollars</b> | <b>Euros</b>                                | <b>US dollars</b> |                         |                       |                       |                       |
| <b>in thousands</b> |                                |                   |   |                   |                         |                       |                       |                       |
| Facility A(1)(2)(3) | 666,750                        | \$ 840,529        | 230,000                                     | \$ 289,946        | EURIBOR +2.25%          | Revolving 4.0% credit | June-06               | June-08               |
| Facility B(1)(2)    | 2,333,250                      | 2,941,380         | 2,333,250                                   | 2,941,380         | EURIBOR +2.25%          | Term loan 4.0%        | June-04               | June-08               |
| Facility C1(1)      | 95,000                         | 119,760           | 95,000                                      | 119,760           | EURIBOR +5.5%           | Term loan             | June-04               | March-09              |

|                |         |         |                  |                     |                |           |         |          |
|----------------|---------|---------|------------------|---------------------|----------------|-----------|---------|----------|
| Facility C2(1) | 405,000 | 347,500 | 275,654          | 347,500             | LIBOR<br>+5.5% | Term loan | June-04 | March-09 |
| <b>Total</b>   |         |         | <b>2,933,904</b> | <b>\$ 3,698,586</b> |                |           |         |          |

- (1) An annual commitment fee of 0.5% over the unused portions of each facility is applicable.
- (2) Pursuant to the terms of the October 2000 agreement, this interest rate is variable depending on certain leverage ratios.
- (3) The availability under Facility A of 436.8 (\$550.6) million can be used to finance additional permitted acquisitions and/or to refinance indebtedness, subject to covenant compliance.
- (4) As of December 31, 2003, six month EURIBOR and LIBOR rates were 2.2% and 1.2%, respectively. In January 2004, the UPC Distribution Bank Facility was amended to:  
Permit indebtedness under a new facility ( Facility D ). The new facility has substantially the same terms as the existing facility and consists of five different tranches totaling 1.072 billion. The proceeds of Facility D are

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**UNITEDGLOBALCOM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

limited in use to fund the scheduled payments of Facility B under the existing facility between December 2004 and December 2006;

Increase and extend the maximum permitted ratios of senior debt to annualized EBITDA (as defined in the bank facility) and lower and extend the minimum required ratios of EBITDA to senior interest and EBITDA to senior debt service;

Include a total debt to annualized EBITDA ratio and EBITDA to total cash interest ratio;

Include a mandatory prepayment from proceeds of debt issuance and net equity proceeds received by UGC Europe; and

Permit acquisitions depending on certain leverage ratios and other restrictions.

***UPC Polska Notes***

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

***VTR Bank Facility***

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

***Old UGC Senior Notes***

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

**Principal  
amount at  
maturity**

**in thousands**

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|               |    |            |
|---------------|----|------------|
| UGC           | \$ | 638,008(1) |
| IDT United    |    | 599,173(1) |
| Third parties |    | 24,627     |
| Total         | \$ | 1,261,808  |

(1) Eliminated in consolidation.

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

***Long-Term Debt Maturities***

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

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

**9. Fair Value of Financial Instruments**

|                                | <b>December 31, 2003</b>  |                       | <b>December 31, 2002</b>  |                       |
|--------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                                | <b>Carrying<br/>value</b> | <b>Fair<br/>value</b> | <b>Carrying<br/>value</b> | <b>Fair<br/>value</b> |
|                                | <b>in thousands</b>       |                       |                           |                       |
| UPC Distribution Bank Facility | \$ 3,698,586              | \$ 3,698,586(1)       | \$ 3,289,826              | \$ 3,289,826(2)       |
| UPC Polska Notes               | 317,372                   | 194,500(3)            | 377,110                   | 99,133(4)             |
| VTR Bank Facility              | 123,000                   | 123,000(5)            | 144,000                   | 144,000(5)            |
| Note payable to Liberty        | 102,728                   | 102,728(6)            | 102,728                   | 102,728(6)            |
| Old UGC Senior Notes           | 24,627                    | 20,687(7)             | 24,313                    | 8,619(4)              |
| UPC July 1999 Senior Notes     |                           |                       | 1,079,062                 | 64,687(4)             |
| UPC October 1999 Senior Notes  |                           |                       | 658,458                   | 41,146(4)             |
| UPC January 2000 Senior Notes  |                           |                       | 1,075,468                 | 68,152(4)             |
| UPC FiBI Loan                  |                           |                       | 57,033                    | (8)                   |
| Other                          | 85,592                    | 85,592(9)             | 151,769                   | 151,769(9)            |

|       |              |              |              |              |
|-------|--------------|--------------|--------------|--------------|
| Total | \$ 4,351,905 | \$ 4,225,093 | \$ 6,959,767 | \$ 3,970,060 |
|-------|--------------|--------------|--------------|--------------|

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

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**UNITEDGLOBALCOM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because:
  - a) the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount); b) the reorganization plan of UPC assumed, in liquidation, that the lenders of the facility would be paid back 100%, based on seniority in liquidation (i.e., the assets of UPC Distribution were sufficient to repay the facility in a liquidation scenario); c) certain lenders under the facility confirmed to us they did not mark down the facility on their books; and d) when the facility was amended in connection with the restructuring agreement on September 30, 2002, the revised terms included increased fees and margin (credit spread), resetting the terms of this variable-rate facility to market.
- (3) Fair value represents the consideration UPC Polska note holders received from the consummation of UPC Polska's second amended Chapter 11 plan of reorganization.
- (4) Fair value is based on quoted market prices.
- (5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because:
  - a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR's results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.
- (6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.
- (7) Fair value is based on an independent valuation analysis.
- (8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel ( FiBI ) and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.
- (9) Fair value approximates carrying value.

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

**10. Derivative Instruments**

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

in fair value of these interest swaps are recorded through other income in the consolidated statement of operations. For the years ended December 31, 2003, 2002 and 2001, we recorded losses of \$56.3 million, \$130.1 million and \$105.8 million, respectively, in connection with the change in fair value of these derivative instruments. The fair value of these derivative contracts as of December 31, 2003 was \$45.6 million (liability).

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

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**UNITEDGLOBALCOM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Bankruptcy Proceedings**

In September 2002, we and other creditors of UPC reached a binding agreement on a recapitalization and reorganization plan for UPC. In order to effect the restructuring, on December 3, 2002, UPC filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York, including a pre-negotiated plan of reorganization dated December 3, 2002. On that date, UPC also commenced a moratorium of payments in The Netherlands under Dutch bankruptcy law and filed a proposed plan of compulsory composition with the Amsterdam Court under the Dutch bankruptcy code. The U.S. Bankruptcy Court confirmed the reorganization plan on February 20, 2003. The Dutch Bankruptcy Court ratified the plan of compulsory composition on March 13, 2003. Following appeals in the Dutch proceedings, the reorganization was completed as provided for in the pre-negotiated plan of reorganization in September 2003.

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

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

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been prepared in accordance with SOP 90-7. The following presents condensed financial information for UPC Polska and UPC in accordance with SOP 90-7:

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

(1) Certain amounts are eliminated in consolidation.

(2) 99.6% is eliminated in consolidation.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

**12. Net Negative Investment in Deconsolidated Subsidiaries**

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

In April 2003, pursuant to the UAP Plan, affiliates of Castle Harlan Australian Mezzanine Partners Pty Ltd. ( CHAMP ) acquired UAP's indirect approximate 63.2% interest in United Astar, Inc. ( UAI ), which owned approximately 80.7% of Astar United. The purchase price for UAP's indirect interest in UAI was \$34.5 million in cash, which was distributed to the holders of UAP's senior notes due 2006 in complete satisfaction of their claims. Upon consummation of the UAP Plan, we recognized our proportionate share of UAP's gain from the sale of its 63.2% interest in UAI (\$26.3 million) and our proportionate share of UAP's gain from the extinguishment of its outstanding senior notes (\$258.4 million). Such amounts are reflected in share in results of affiliates in the accompanying consolidated statement of operations. In addition, we recognized a gain of \$284.7 million associated with the sale of our indirect approximate 49.99% interest in UAP that occurred on November 15, 2001.

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Guarantees, Commitments and Contingencies*****Guarantees***

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

In connection with the acquisition of UPC's ordinary shares held by Philips Electronics N.V. ( Philips ) on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria ( Vienna Obligations ), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence. Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

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

***Commitments***

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense under these lease agreements totaled \$69.9 million, \$48.5 million and \$63.3 million for the years ended December 31, 2003, 2002 and



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2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

|   | <b>Capital<br/>leases</b> | <b>Operating<br/>leases</b> |
|---|---------------------------|-----------------------------|
| Year ended December 31, 2004                          | \$ 7,791                  | \$ 60,501                   |
| Year ended December 31, 2005                          | 8,790                     | 39,376                      |
| Year ended December 31, 2006                          | 7,887                     | 32,020                      |
| Year ended December 31, 2007                          | 7,899                     | 26,109                      |
| Year ended December 31, 2008                          | 7,917                     | 21,511                      |
| Thereafter  | 61,826                    | 42,092                      |
| <b>Total minimum payments</b>                         | <b>\$ 102,110</b>         | <b>\$ 221,609</b>           |
| Less amount representing interest and executory costs | (37,268)                  |                             |
| <b>Net lease payme</b>                                |                           |                             |