

LIBERTY MEDIA INTERNATIONAL INC

Form 10-K/A

May 02, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K/A  
(Amendment No. 4)**

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

**For the fiscal year ended December 31, 2004**

**OR**

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

**For the transition period from to**

**Commission File Number 000-50671  
Liberty Media International, Inc.**

*(Exact name of Registrant as specified in its charter)*

**State of Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*

**20-0893138**  
*(I.R.S. Employer  
Identification No.)*

**12300 Liberty Boulevard  
Englewood, Colorado**  
*(Address of principal executive offices)*

**80112**  
*(Zip Code)*

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

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

Securities registered pursuant to Section 12(g) of the Act:  
Series A Common Stock, par value \$0.01 per share  
Series B Common Stock, par value \$0.01 per share

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

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

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

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

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

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**EXPLANATORY NOTE**

We are filing this Amendment No. 4 on Form 10-K/ A to our Annual Report on Form 10-K for the year ended December 31, 2004 in order to file the consolidated financial statements of our equity investee, Fox Pan American Sports, LLC, as required by Rule 3-09 of Regulation S-X. The additional consolidated financial statements of this equity investee were required as a result of changes to our pre-tax loss for the year ended December 31, 2004 that resulted from the correction in Amendment No. 3 on Form 10-K/A to our Annual Report on Form 10-K for the year ended December 31, 2004 of an error in our consolidated financial statements with respect to the accounting for the 1<sup>3</sup>/<sub>4</sub>% euro-dominated denominated convertible senior notes due April 15, 2024 that were issued by UnitedGlobalCom, Inc., our majority-owned subsidiary. Other than for this matter, the information in this Form 10-K/A (Amendment No. 4) is as of March 14, 2005, the filing date of our Form 10-K, and has not been updated for events subsequent to that date.

\* \* \*

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

**(a) (2) FINANCIAL STATEMENT SCHEDULES**

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

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(a) (3) EXHIBITS

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

- 2 Plan of Acquisition Reorganization, Arrangement, Liquidation or Succession:
  - 2.1 Agreement and Plan of Merger, dated as of January 17, 2005, among New Cheetah, Inc. (now known as Liberty Global, Inc.), the Registrant, UnitedGlobalCom, Inc. ( UGC ), Cheetah Acquisition Corp. and Tiger Global Acquisition Corp. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K, dated January 17, 2005)
- 3 Articles of Incorporation and Bylaws:
  - 3.1 Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form 10, dated April 2, 2004 (File No. 000-50671) (the Form 10 ))
  - 3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to Amendment No. 1 to the Registrant's Registration Statement on Form 10, dated May 25, 2004 (File No. 000-50671) (the Form 10 Amendment ))
- 4 Instruments Defining the Rights of Securities Holders, including Indentures:

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- 4.1 Specimen certificate for shares of Series A common stock, par value \$.01 per share, of the Registrant (incorporated by reference to Exhibit 4.1 to the Form 10)
- 4.2 Specimen certificate for shares of Series B common stock, par value \$.01 per share, of the Registrant (incorporated by reference to Exhibit 4.2 to the Form 10)

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- 4.3 Indenture, dated as of April 6, 2004, between UGC and The Bank of New York (incorporated by reference to Exhibit 4.1 to UGC's Current Report on Form 8-K, dated April 6, 2004 (File No. 000-496-58) (the "UGC April 2004 8-K"))
- 4.4 Registration Rights Agreement, dated as of April 6, 2004, between UGC and Credit Suisse First Boston (incorporated by reference to Exhibit 10.1 to the UGC April 2004 8-K)
- 4.5 Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband Holding B.V. ("UPC Broadband") and UPC Financing Partnership ("UPC Financing"), as Borrowers, the guarantors listed therein, and TD Bank Europe Limited, as Facility Agent and Security Agent, including as Schedule 3 thereto the Restated \$1,072,000,000 Senior Secured Credit Facility, originally dated January 16, 2004, among UPC Broadband, as Borrower, the guarantors listed therein, the banks and financial institutions listed therein as Initial Facility D Lenders, TD Bank Europe Limited, as Facility Agent and Security Agent, and the facility agents under the Existing Facility (as defined therein) (the "2004 Credit Agreement") (incorporated by reference to Exhibit 10.32 to UGC's Annual Report on Form 10-K, dated March 14, 2005 (File No. 000-496-58) (the "UGC 2004 10-K"))
- 4.6 Additional Facility Accession Agreement, dated June 24, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility E Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.2 to UGC's Current Report on Form 8-K, dated June 29, 2004 (File No. 000-496-58))
- 4.7 Additional Facility Accession Agreement, dated December 2, 2004, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility F Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated December 2, 2004 (File No. 000-496-58))
- 4.8 Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility G Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.39 to the UGC 2004 10-K)
- 4.9 Additional Facility Accession Agreement, dated March 7, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility H Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.40 to the UGC 2004 10-K)
- 4.10 Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K)
- 4.11 Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, TD Bank Europe Limited and Toronto Dominion (Texas), Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent, including as Schedule 3 thereto the Restated Credit Agreement, \$3,500,000,000 and US\$347,500,000 and \$95,000,000 Senior Secured Credit Facility, originally dated October 26, 2000, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, the Lead Arrangers listed therein, the banks and financial institutions listed therein as Original Lenders, TD Bank Europe Limited and Toronto-Dominion (Texas) Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent (incorporated by reference to Exhibit 10.33 to the UGC 2004 10-K)
- 4.12 The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith

10 Material Contracts:



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- 10.1 Reorganization Agreement, dated as of May 20, 2004, among Liberty Media Corporation ( Liberty ), the Registrant and the other parties named therein (incorporated by reference to Exhibit 2.1 to the Form 10 Amendment)
- 10.2 Form of Facilities and Services Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.3 to the Form 10 Amendment)

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- 10.3 Agreement for Aircraft Joint Ownership and Management, dated as of May 21, 2004, between Liberty and the Registrant (incorporated by reference to Exhibit 10.4 to the Form 10 Amendment)
- 10.4 Form of Tax Sharing Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.5 to the Form 10 Amendment)
- 10.5 Form of Credit Facility between Liberty and the Registrant (terminated in accordance with its terms) (incorporated by reference to Exhibit 10.6 to the Form 10 Amendment)
- 10.6 Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)\*\*
- 10.7 Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005)\*\*
- 10.8 Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (incorporated by reference to Exhibit 7(A) to Mr. Malone's Schedule 13D/ A (Amendment No. 1) with respect to the Registrant's common stock, dated July 14, 2004 (File No. 005-79904))
- 10.9 Form of Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) Non-Qualified Stock Option Agreement\*\*
- 10.10 Form of Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005) Non-Qualified Stock Option Agreement\*\*
- 10.11 Liberty Media International, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-8, dated June 23, 2004 (File No. 333-116790))
- 10.12 Description of Director Compensation Policy\*
- 10.13 Form of Indemnification Agreement between the Registrant and its Directors\*
- 10.14 Form of Indemnification Agreement between the Registrant and its Executive Officers\*
- 10.15 Stock Option Plan for Non-Employee Directors of UGC, effective June 1, 1993, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.7 to UGC's Annual Report on Form 10-K, dated March 15, 2004 (File No. 000-496-58) (the "UGC 2003 10-K"))
- 10.16 Stock Option Plan for Non-Employee Directors of UGC, effective March 20, 1998, amended and restated as of January 22, 2004 (incorporated by reference to Exhibit 10.8 to the UGC 2003 10-K)
- 10.17 2003 Equity Incentive Plan of UGC, effective September 1, 2003 (incorporated by reference to Exhibit 10.9 to the UGC 2003 10-K)
- 10.18 Amended and Restated Stockholders' Agreement, dated as of May 21, 2004, among the Registrant, Liberty Media International Holdings, LLC, Robert R. Bennett, Miranda Curtis, Graham Hollis, Yasushige Nishimura, Liberty Jupiter, Inc., and, solely for purposes of Section 9 thereof, Liberty (incorporated by reference to Exhibit 10.23 to the Form 10 Amendment)
- 10.19 Standstill Agreement between UGC and Liberty, dated as of January 5, 2004 (incorporated by reference to Exhibit 10.2 to UGC's Current Report on Form 8-K, dated January 5, 2004 (File No. 000-496-58))
- 10.20 Standstill Agreement among UGC, Liberty and the parties named therein, dated January 30, 2002 (terminated except as to (i) UGC's obligations under the final sentence of Section 9(b) and (ii) Section 7B and the related definitions in Section 1 as set forth in, and as modified by, the Letter Agreement referenced in Exhibit 10.21)(incorporated by reference to Exhibit 10.9 to UGC's Registration Statement on Form S-1, dated February 14, 2002 (File No. 333-82776))
- 10.21 Letter Agreement, dated November 12, 2003, between UGC and Liberty (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated November 12, 2003 (File No. 000-496-58))
- 10.22 Share Exchange Agreement, dated as of August 18, 2003, among Liberty and the Stockholders of UGC named therein (incorporated by reference to Exhibit 7(j) to Liberty's Schedule 13D/ A with

- 10.23 respect to UGC's Class A common stock, dated August 21, 2003)  
Amendment to Share Exchange Agreement, dated as of December 22, 2003, among Liberty and the Stockholders of UGC named on the signature pages thereto (incorporated by reference to Exhibit 4.5 to Liberty's Registration Statement on Form S-3, dated December 24, 2003 (File No. 333-111564))

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- 10.24 Stock and Loan Purchase Agreement, dated as of March 15, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.1 to UGC's Current Report on Form 8-K, dated July 1, 2004 (File No. 000-496-58) (the "UGC July 2004 8-K"))
- 10.25 Amendment to the Purchase Agreement, dated as of July 1, 2004, among Suez SA, MédiaRéseaux SA, UPC France Holding BV and UGC (incorporated by reference to Exhibit 10.2 to the UGC July 2004 8-K)
- 10.26 Shareholders Agreement, dated as of July 1, 2004, among UGC, UPC France Holding BV and Suez SA (incorporated by reference to Exhibit 10.3 to the UGC July 2004 8-K)
- 10.27 Amended and Restated Operating Agreement dated November 26, 2004, among Liberty Japan, Inc., Liberty Japan II, Inc., LMI Holdings Japan, LLC, Liberty Kanto, Inc., Liberty Jupiter, Inc. and Sumitomo Corporation, and, solely with respect to Sections 3.1(c), 3.1(d) and 16.22 thereof, the Registrant\*
- 21 List of Subsidiaries\*
- 23 Consent of Experts and Counsel:
  - 23.1 Consent of KPMG LLP\*\*
  - 23.2 Consent of KPMG AZSA & Co.\*\*
  - 23.3 Consent of KPMG AZSA & Co.\*\*
  - 23.4 Consent of Finsterbusch Pickenhayn Sibille\*\*
  - 23.5 Consent of KPMG LLP\*\*
  - 23.6 Consent of Ernst & Young LTDA.\*\*
  - 23.7 Information regarding absence of consent of Arthur Andersen LLP\*\*
  - 23.8 Consent of KPMG LLP\*\*\*
- 31 Rule 13a-14(a)/15d-14(a) Certification:
  - 31.1 Certification of President and Chief Executive Officer\*\*\*
  - 31.2 Certification of Senior Vice President and Treasurer\*\*\*
  - 31.3 Certification of Senior Vice President and Controller\*\*\*
- 32 Section 1350 Certification\*\*\*

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

\*\* Filed with the Registrant's 10-K/A, dated April 28, 2005

\*\*\* Filed herewith

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**SIGNATURES**

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

Liberty Media Corporation  
By /s/ Bernard G. Dvorak

Bernard G. Dvorak  
Senior Vice President and Controller

Dated: May 2, 2005

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

| <b>Signature</b>                           | <b>Title</b>   | <b>Date</b> |
|--|--|-------------|
| /s/ John C. Malone<br>John C. Malone       | Chairman of the Board, Chief Executive Officer, President and Director | May 2, 2005 |
| /s/ Robert R. Bennett<br>Robert R. Bennett | Vice Chairman  | May 2, 2005 |
| /s/ Donne F. Fisher<br>Donne F. Fisher     | Director   | May 2, 2005 |
| /s/ David E. Rapley<br>David E. Rapley     | Director   | May 2, 2005 |
| /s/ M. LaVoy Robison<br>M. LaVoy Robison   | Director   | May 2, 2005 |
| /s/ Larry E. Romrell<br>Larry E. Romrell   | Director   | May 2, 2005 |
| /s/ J. C. Sparkman<br>J. C. Sparkman       | Director   | May 2, 2005 |
| /s/ J. David Wargo<br>J. David Wargo       | Director   | May 2, 2005 |
| /s/ Graham E. Hollis                       |  | May 2, 2005 |

|                       |  |             |
|-----------------------|--|-------------|
| Graham E. Hollis      | Senior Vice President and Treasurer<br>(Principal Financial Officer)   |             |
| /s/ Bernard G. Dvorak | Senior Vice President and Controller<br>(Principal Accounting Officer) | May 2, 2005 |
| Bernard G. Dvorak     |  |             |

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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**

|   |    | Seven months<br>ended<br>December 31,<br>2004 |
|---|----|---|
|   |    | as restated(1)                                |
| Operating costs and expenses:   |    |   |
| Selling, general and administrative (SG&A)                                      | \$ | 8,535   |
| Stock-based compensation charges  |    | 20,382  |
| Depreciation and amortization   |    | 387   |
| Operating loss  |    | (29,304)                                      |
| Other income (expense):   |    |   |
| Interest and dividend income  |    | 8,673   |
| Realized and unrealized losses on derivative instruments, net                   |    | (4,146)                                       |
| Other income, net   |    | 1,465   |
|   |    | 5,992   |
| Loss before income taxes and equity in income of consolidated subsidiaries, net |    | (23,312)                                      |
| Equity in income of consolidated subsidiaries, net                              |    | 90,443  |
| Income tax benefit  |    | 5,763   |
| Net income  | \$ | 72,894  |

(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<br>paid-in<br>capital | Accumulated<br>deficit | 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 |                                  |                        |   |                               |                                 |
| <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**

|  |    | Seven months<br>ended<br>December 31,<br>2004 |
|--|----|---|
|  |    | as restated (1)                               |
| <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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**CONSOLIDATED BALANCE SHEETS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

|  | 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.

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**CONSOLIDATED BALANCE SHEETS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

|  | December 31,       |                    |
|--|--------------------|--------------------|
|  | 2003               | 2004               |
|  | (Yen in thousands) |                    |
| <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>  |
| Long-term debt, less current portion (Notes 6 and 12):   |                    |                    |
| Related parties  | 149,739,250        |                    |
| Other  | 72,092,465         | 194,088,485        |
| Capital lease obligations, less current portion (Notes 5, 7 and 12):   |                    |                    |
| Related parties  | 17,704,295         | 19,714,799         |
| Other  | 3,951,900          | 2,560,511          |
| Deferred revenue   | 41,635,426         | 41,699,497         |
| Severance and retirement allowance (Note 9)  | 2,023,706          | 2,718,792          |
| Redeemable preferred stock of consolidated subsidiary (Note 10)  | 500,000            | 500,000            |
| Other liabilities  | 3,411,564          | 180,098            |
| <b>Total liabilities</b>   | <b>323,842,160</b> | <b>299,947,246</b> |
| Minority interest  | 1,266,287          | 974,227            |
| Commitments and contingencies (Note 14)  |                    |                    |
| Shareholders' equity (Note 11):  |                    |                    |
| Ordinary shares no par value   | 63,132,998         | 78,133,015         |
| Authorized 15,000,000 shares; issued and outstanding 4,684,535.74 shares at December 31, 2003 and 5,146,074.74 shares at December 31, 2004 |                    |                    |
| Additional paid-in capital   | 122,837,273        | 137,930,774        |
| Accumulated deficit  | (88,506,887)       | (77,685,712)       |
| Accumulated other comprehensive loss   | (694,745)          | (8,204)            |
| <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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**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

Year ended December 31,

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

|   |                   |           |           |           |
|---|-------------------|-----------|-----------|-----------|
| 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****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY  
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

|  | 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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**CONSOLIDATED STATEMENTS OF CASH FLOWS  
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

Year ended December 31,

|  | 2002          | 2003         | 2004         |
|--|---------------|--------------|--------------|
| (Yen in thousands)   |               |              |              |
| <b>Cash flows from operating activities:</b>   |               |              |              |
| Net income (loss)  | ¥ (7,542,676) | ¥ 5,351,250  | ¥ 10,821,175 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |               |              |              |
| Gain on forgiveness of subsidiary debt   |               | (400,000)    |              |
| Depreciation and amortization  | 30,079,753    | 36,410,894   | 40,573,166   |
| Equity in earnings of affiliates   | (235,792)     | (414,756)    | (610,110)    |
| Minority interest in net income (losses) of consolidated subsidiaries                    | (196,498)     | 448,668      | 458,624      |
| Stock compensation expense   | 61,902        | 120,214      | 84,267       |
| Deferred income taxes  |               |              | 45,591       |
| Provision for retirement allowance   | 412,692       | 417,335      | 647,592      |
| Changes in operating assets and liabilities, excluding effects of business combinations: |               |              |              |
| Decrease/(increase) in accounts receivable, net  | 1,368,081     | 1,712,904    | (431,162)    |
| Decrease in prepaid expenses and other current assets                                    | 553,192       | 349,147      | 4,866        |
| (Increase)/decrease in other assets  | (1,651,599)   | (325,769)    | 2,443,960    |
| (Decrease)/increase in accounts payable  | (3,124,486)   | 171,705      | (1,184,539)  |
| Increase in accrued expenses and other liabilities                                       | 188,537       | 2,665,162    | 39,279       |
| Increase/(decrease) in deferred revenue  | 2,768,512     | 458,315      | (380,578)    |
| Net cash provided by operating activities  | 22,681,618    | 46,965,069   | 52,512,131   |
| <b>Cash flows from investing activities:</b>   |               |              |              |
| Capital expenditures   | (48,108,176)  | (32,478,389) | (31,792,956) |
| Acquisition of new subsidiaries, net of cash acquired                                    | 1,856,230     |              | (442,910)    |
| Investments in and advances to affiliates  | (665,575)     | (172,500)    | (359,500)    |
| (Increase)/decrease in restricted cash   |               | (1,773,060)  | 1,773,060    |
| Loans to related party   |               |              | (4,030,000)  |
| Acquisition of minority interest in consolidated subsidiaries                            | (164,590)     | (25,565)     | (4,960,484)  |
| Other investing activities   | (650,729)     | (76,891)     | (69,427)     |



|   |              |               |               |
|---|--------------|---------------|---------------|
| Net cash used in investing activities               | (47,732,840) | (34,526,405)  | (39,882,217)  |
| Cash flows from financing activities:               |              |               |               |
| Proceeds from issuance of common stock              |              |               | 30,000,034    |
| Net increase/(decrease) in short-term loans         | 36,984,965   | (228,785,000) | 250,000       |
| Proceeds from long-term debt                        | 2,620,000    | 239,078,000   | 185,302,000   |
| Principal payments of long-term debt                | (2,082,335)  | (8,184,980)   | (210,097,730) |
| Principal payments under capital lease obligations  | (9,293,487)  | (10,843,024)  | (11,887,363)  |
| Other financing activities                          | (738,854)    | (3,464,440)   | (3,562,724)   |
| Net cash provided by (used in) financing activities | 27,490,289   | (12,199,444)  | (9,995,783)   |
| Net increase in cash and cash equivalents           | 2,439,067    | 239,220       | 2,634,131     |
| Cash and cash equivalents at beginning of year      | 5,107,691    | 7,546,758     | 7,785,978     |
| Cash and cash equivalents at end of year            | ¥ 7,546,758  | ¥ 7,785,978   | ¥ 10,420,109  |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES**

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

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

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

|   |        |
|---|--------|
| LMI/ Sumisho Super Media, LLC ( <i>SM</i> ) | 65.23% |
| Microsoft Corporation ( <i>Microsoft</i> )  | 19.46% |
| Sumitomo Corporation ( <i>SC</i> )          | 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)**

**Summary of Significant Accounting Policies**

***(a) Consolidation Policy***

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

***(b) Cash and Cash Equivalents***

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

***(c) Allowance for Doubtful Accounts***

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

***(d) Investments***

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

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

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

***(e) Property and Equipment***

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

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed of, the cost and related

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accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥1,315,484 thousand, ¥2,041,347 thousand and ¥2,558,513 thousand for the years ended December 31, 2002, 2003 and 2004, respectively.

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

**(f) Goodwill**

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

**(g) Long-Lived Assets**

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

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

**(h) Other Assets**

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

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

***(i) Derivative Financial Instruments***

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

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

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

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

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

***(j) Severance and Retirement Plans***

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

***(k) Income Taxes***

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

***(l) Cable Television System Costs, Expenses and Revenues***

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

***(m) Revenue Recognition***

The Company and its subsidiaries recognize cable television, high-speed Internet access, telephony and programming revenues when such services are provided to subscribers. Revenues derived from other sources are recognized when services are provided, events occur or products are delivered. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of

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direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to remain connected to the cable television system. Historically, installation revenues have been less than related direct selling costs, therefore such revenues have been recognized as installations are completed. The Company and its subsidiaries provide poor reception rebroadcasting services to noncable television viewers suffering from poor reception of television waves caused by artificial obstacles. The Company and its subsidiaries enter into agreements with parties that have built obstacles causing poor reception for construction and maintenance of cable facilities to provide such services to the affected viewers at no cost to them during the agreement period. Under these agreements, the Company and its subsidiaries receive up-front, lump-sum compensation payments for construction and maintenance. Revenues from these agreements have been deferred and are being recognized in income on a straight-line basis over the agreement periods which are generally 20 years. Such revenues are included in revenue other in the accompanying consolidated statements of operations.

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

**(n) Advertising Expense**

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

**(o) Stock-Based Compensation**

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

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

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

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

**(p) Earnings Per Share**

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

**(q) Segments**

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

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

**(r) Use of Estimates**

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

**(s) Recent Accounting Pronouncements**



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

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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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**4. Goodwill and Other Assets**

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

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

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

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

**5. Related Party Transactions**

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

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

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

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

2.48%.

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

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programming costs in the accompanying consolidated statements of operations. Additionally, the Company receives a distribution fee to carry the Shop Channel, a majority owned subsidiary of JPC, for the greater of a fixed rate per subscriber or a percentage of revenue generated through sales in the Company's territory. Such fees amounted to ¥614,224 thousand, ¥939,438 thousand and ¥1,063,678 thousand for the years ended December 31, 2002, 2003 and 2004, respectively, and are included as revenue other in the accompanying consolidated statements of operations. The Company purchased stock of affiliated companies from SC in the amounts of ¥1,112,750 thousand, ¥0 thousand, and ¥5,091,864 thousand in the years ended December 31, 2002, 2003 and 2004, respectively.

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

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

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

SC, LMI and Microsoft had long-term subordinated loans to the Company of ¥52,894,625 thousand, ¥52,894,625 thousand and ¥43,950,000 thousand, respectively, at December 31, 2003. In December 2004, the Company refinanced and replaced these subordinated shareholder loans under a new facility. See Note 6. The Company pays fees on debt guaranteed by SC, LMI and Microsoft. The guarantee fees incurred were ¥413,128 thousand to SC, ¥361,627 thousand to LMI and ¥285,042 thousand to Microsoft for the year ended December 31, 2002. The guarantee fees incurred were ¥84,224 thousand to SC, ¥73,470 thousand to LMI and ¥51,890 thousand to Microsoft for the year ended December 31, 2003. The guarantee fees incurred were ¥41,071 thousand to SC, ¥41,071 thousand to LMI and ¥16,332 thousand to Microsoft for the year ended December 31, 2004. Such fees are included in interest expense, net-related parties in the accompanying

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consolidated statements of operations. In December 2004 these guarantees were replaced by a guarantee facility with a syndicate of lenders. See Note 6.

**6. Long-term Debt**

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

|   | 2003                 | 2004                 |
|---|----------------------|----------------------|
| ¥140 billion Facility term loans, due fiscal 2005 - 2009  | ¥ 53,000,000         | ¥                    |
| ¥175 billion Facility term loans, due fiscal 2005 - 2011  |                      | 130,000,000          |
| Mezzanine Facility Subordinated loan due fiscal 2012  |                      | 50,000,000           |
| 8 yr Shareholder Subordinated loans, due fiscal 2011  | 117,739,250          |                      |
| 8 yr Shareholder Tranche B Subordinated loans, due fiscal 2011                                      | 32,000,000           |                      |
| 0% unsecured loans from Development Bank of Japan, due fiscal 2005 - 2019                           | 12,223,720           |                      |
| Unsecured loans from Development Bank of Japan, due fiscal 2005 - 2019, interest from 0.65% to 6.8% | 3,895,400            |                      |
| 0% secured loans from Development Bank of Japan, due fiscal 2005 - 2019                             | 5,354,735            | 15,810,095           |
| Secured loans from Development Bank of Japan, due fiscal 2005 - 2019, interest at 0.95% to 6.8%     |                      | 3,614,200            |
| 0% unsecured loans from others, due fiscal 2012   | 57,090               | 50,170               |
| <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%.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)**

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

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

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

**2004 Refinancing**

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

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

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

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

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

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

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

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

**Development Bank of Japan Loans**

The loans represent institutional loans from the Development Bank of Japan, which have been made available to telecommunication companies operating in specific local areas designated as Teletopia by the MIC to facilitate development of local telecommunication network. Requirements to qualify for such financing include use of optical fiber cables, equity participation by local/municipal government and guarantee by third parties,

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among other things. These loans are obtained by the Company's subsidiaries and were primarily guaranteed, directly or indirectly, by SC, LMI and Microsoft. In connection with the 2004 refinancing described above, the guarantees by SC, LMI and Microsoft have been cancelled and replaced with guarantees pursuant to the Guarantee Facility.

**Securities on Long-term Debt**

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

**Year ending December 31,**

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

**7. Leases**

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

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

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

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

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

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

| Year ending December 31,   | Capital<br>Leases   | Operating<br>Leases |
|--|---------------------|---------------------|
| 2005   | ¥ 10,479,258        | ¥ 901,131           |
| 2006   | 8,298,826           | 750,754             |
| 2007   | 5,997,212           | 626,332             |
| 2008   | 4,102,122           | 399,496             |
| 2009   | 2,810,622           | 383,100             |
| More than five years   | 2,686,635           | 703,288             |
| <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):

|          | 2002      | 2003      | 2004        |
|----------|-----------|-----------|-------------|
| 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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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)**

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

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

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

|                                      | 2003         | 2004         |
|--------------------------------------|--------------|--------------|
| <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),



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respectively. If the deferred tax assets are realized or the valuation allowance is reversed, the tax benefit realized is first applied to i) reduce to zero any goodwill related to acquisition, ii) second to reduce to zero other non-current intangible assets related to the acquisition and iii) third to reduce income tax expense. See Note 4.

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

**Year ending December 31,**

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

**9. Severance and Retirement Plans**

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

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

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

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

|                                       | 2003        | 2004        |
|---------------------------------------|-------------|-------------|
| Change in benefit obligation:         |             |             |
| Benefit obligation, beginning of year | ¥ 1,606,371 | ¥ 2,006,011 |
| Service cost                          | 257,230     | 265,608     |
| Interest cost                         | 40,159      | 40,120      |

|                                 |             |             |
|---------------------------------|-------------|-------------|
| Acquisitions (Note 2)           |             | 30,630      |
| Actuarial loss                  | 158,371     | 432,586     |
| Benefits paid                   | (56,120)    | (93,288)    |
| Benefit obligation, end of year | ¥ 2,006,011 | ¥ 2,681,667 |

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

|                                     | 2002 | 2003 | 2004 |
|-------------------------------------|------|------|------|
| <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% |

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  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)**

for purposes other than those provided in (i) and (ii), such as refund made to shareholders or acquisition of treasury stocks, but only up to an amount equal to the additional paid-in capital and the legal reserve less 25% of the issued capital, by resolution of the shareholders. The Code provides that at least one-half of the issue price of new shares be included in capital.

***Stock-Based Compensation Plans***

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

Under Jupiter Option Plans, the number of ordinary shares issuable will be adjusted for stock splits, reverse stock splits and certain other recapitalizations and the subscription rights will not be exercisable until the Company's ordinary shares are registered with the Japan Securities Dealers Association or listed on a stock exchange.

Non-management employees will, unless the grant agreement provides otherwise, vest in two years from date of grant. Management employees will, unless the grant agreement provides otherwise, vest in four equal installments from date of grant. Options under the Jupiter Option Plans generally expire 10 years from date of grant, currently ranging from August 23, 2010 to August 23, 2012.

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUPITER TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES (Continued)**

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

**13. Supplemental Disclosures to Consolidated Statements of Cash Flows**

|  | 2002         | 2003        | 2004        |
|--|--------------|-------------|-------------|
| (Yen in thousands)                     |              |             |             |
| Cash paid during the year for:         |              |             |             |
| Interest                               | ¥ 4,696,332  | ¥ 4,408,426 | ¥ 8,588,285 |
| Income tax                             | ¥            | ¥ 378,116   | ¥ 323,144   |
| Cash acquisitions of new subsidiaries: |              |             |             |
| Fair value of assets acquired          | ¥ 20,135,417 | ¥           | ¥ 1,688,442 |
| Liabilities assumed                    | 21,991,647   |             | 1,245,532   |

|  |               |              |              |
|--|---------------|--------------|--------------|
| Cash paid, net of cash acquired                        | ¥ (1,856,230) | ¥            | ¥ 442,910    |
| Property acquired under capital leases during the year | ¥ 10,990,909  | ¥ 6,057,250  | ¥ 12,561,285 |
| Conversion of long-term debt into equity               | ¥             | ¥ 32,260,750 | ¥            |

#### 14. Commitments

In connection with the September 1, 2000 acquisition of Titus Communications Corporation ( Titus ), Microsoft and the Company entered into a gain recognition agreement with respect to the Titus shares and assets acquired. The Company agreed not to sell during any 18-month period, without Microsoft consent, any shares of Titus, or sell any of Titus assets, valued at \$35 million or more, in a transaction that would result in taxable income to Microsoft. Microsoft will retain this consent right until the earlier of June 30, 2006 or the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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          |
| <b>Balance at end of year</b>   | <b>16,834,000</b>   | <b>16,834,000</b>   | <b>11,434,000</b>  |
| <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)        |
| <b>Balance at end of year</b>   |                     |                     | <b>6,788,054</b>   |
| <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          |
| <b>Balance at end of year</b>   | <b>(14,896,001)</b> | <b>(12,230,711)</b> | <b>(7,207,717)</b> |
| <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)           |
| <b>Balance at end of year</b>   |                     |                     | <b>(16,705)</b>    |
| <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) |                    |                    |
| <b>Cash flows from operating activities:</b>   |                    |                    |                    |
| Net income   | ¥ 1,017,720        | ¥ 2,665,290        | ¥ 3,210,058        |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                    |                    |                    |
| 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          |
| <b>Changes in assets and liabilities, net of effects of acquisitions:</b>                |                    |                    |                    |
| 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)           |
| <b>Net cash provided by operating activities</b>   | <b>3,693,504</b>   | <b>5,255,815</b>   | <b>5,192,589</b>   |
| <b>Cash flows from investing activities:</b>   |                    |                    |                    |
| 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              |                    |
| <b>Net cash used in investing activities</b>   | <b>(2,307,110)</b> | <b>(2,554,673)</b> | <b>(5,027,055)</b> |
| <b>Cash flows from financing activities:</b>   |                    |                    |                    |
| 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.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(d) Cash Equivalents***

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

***(e) Allowance for doubtful accounts***

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

***(f) Retail Inventories***

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

***(g) Program Rights and Language Versioning***

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

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

***(h) Investments***

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

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

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

JPC evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in value considered to be other than temporary. In performing its evaluations, JPC utilizes various sources of information, as available, including cash flow projections, independent valuations and, as applicable, stock

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

price analysis. In the event of a determination that a decline in value is other than temporary, a charge to income is recorded for the loss, and a new cost basis in the investment is established.

**(i) Derivative Financial Instruments**

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

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

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

**(j) Property and Equipment**

Property and equipment are stated at cost.

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

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

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(k) Software Development Costs***

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

***(l) Goodwill and Other Intangible Assets***

Goodwill represents the excess of costs over fair value of net assets of businesses acquired. In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of the purchase method of accounting for business combinations and establishes certain criteria for the recognition of intangible assets separately from goodwill. Under SFAS No. 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144,

Accounting for the Impairment or Disposal of Long-Lived Assets. Any recognized intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until their life is determined to be no longer indefinite.

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

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

JPC accounts for long-lived assets in accordance with the provisions of SFAS No. 144. SFAS No. 144 requires that long-lived assets and certain identifiable intangibles with definite useful lives be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined by independent third party appraisals, projected discounted cash flows, or other valuation techniques as appropriate.

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

***(n) Accrued Pension and Severance Costs***

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 customer's discretion, generally up to 30 days after the date of sale. Retail sales revenue is reported net of discounts, and of estimated returns, which are based upon historical experience.

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

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

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

**(p) Cost of Retail Sales**

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(q) Cost of Programming and Distribution***

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

***(r) Advertising Expense***

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

***(s) Income Taxes***

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

***(t) Foreign Currency Transactions***

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

***(u) Use of Estimates***

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

***(v) New Accounting Standards***

In November 2004, the FASB issued SFAS No. 151, Inventory Costs—an amendment of ARB No. 43. This Statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that "... under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges..." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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

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



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

¥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       |
| <br>Equity method goodwill                                   | <br>¥ | <br>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       |
| <br>Carryover basis adjustment to additional paid in capital | <br>¥ | <br>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     |
| <br>Total assets acquired   |   | <br>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>                 |                        |
|--|-----------------------------|------------------------|-----------------------------|------------------------|
|  | <b>percentage ownership</b> | <b>carrying amount</b> | <b>percentage ownership</b> | <b>carrying amount</b> |
| 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                 |

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|                               |       |             |       |             |
|-------------------------------|-------|-------------|-------|-------------|
| Satellite Service Co. Ltd.    | 12.0% | 24,000      | 12.0% | 24,000      |
| Total cost method investments |       | 761,100     |       | 761,100     |
|                               |       | ¥ 3,359,563 |       | ¥ 6,929,961 |

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following investments represent participation in programming businesses:

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

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

InteracTV Co., Ltd., holds licenses for Movie Plus, Lala, Golf Network and Shop channels, among others;

Satellite Service Co. Ltd., holds licenses for Discovery and Animal Planet channels, among others.

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

|                                  | 2002        | 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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

Financial information for the companies in which the Company has an investment accounted for under the equity method is presented as combined as the companies are similar in nature and operate in the same business area.

Condensed combined financial information is as follows (Yen in thousands):

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

|   | 2002         | 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    |

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(5) Property and Equipment**

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

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

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

**(6) Software Development Costs**

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

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

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

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

**(7) Intangibles**

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
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The details of intangible assets other than software and goodwill at December 31, 2003 and 2004 were as follows (Yen in thousands):

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

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

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

**(8) Goodwill**

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

|                              | 2002        | 2003      | 2004      |
|------------------------------|-------------|-----------|-----------|
|                              | (unaudited) |           |           |
| Balance at beginning of year | ¥ 191,482   | ¥ 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.

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

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

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

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

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

**(10) Fair Value of Financial Instruments**

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments: *Cash and cash equivalents, accounts receivable, accounts payable, income taxes payable, accrued liabilities, and other current liabilities (non-derivatives)*: The carrying amounts approximate fair value because of the short duration of these instruments.

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

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

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

**(11) Leases**

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

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

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

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

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

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

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

Company's premises for only a six-month period.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
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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.

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.

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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

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

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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
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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     |
|                              | 4,304,180   | 3,857,538   |
| Less valuation allowance     | (2,901,655) | (2,165,372) |

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|                           |   |           |   |           |
|---------------------------|---|-----------|---|-----------|
| 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.

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

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

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

The Company and its subsidiaries were subject to Japanese National Corporate tax of 30%, an Inhabitant tax of 6% and a deductible Enterprise tax of 10%, which in aggregate result in a statutory tax rate of 42.1%. On March 24, 2003, the Japanese Diet approved the Amendments to Local Tax Law, reducing the standard enterprise tax rate from 10.08% to 7.2%. The amendments to the tax rates became effective for fiscal years beginning on or after April 1, 2004.

Consequently, the statutory income tax rate was lowered to approximately 40.7% for deferred tax assets and liabilities expected to be settled or realized on or after January 1, 2005. As a result of the decrease in the statutory tax rate, when compared with the amounts based on the tax rate applied before this revision, the net deferred tax assets decreased by approximately ¥47,119 thousand at December 31, 2004. A reconciliation of the Japanese statutory income tax rate and the effective income tax rate as a

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

**(14) Accrued Pension and Severance Cost**

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

|   | <b>2002</b>        | <b>2003</b> | <b>2004</b> |
|---|--------------------|-------------|-------------|
|   | <b>(unaudited)</b> |             |             |
| 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):

|   | <b>2003</b> | <b>2004</b> |
|---|-------------|-------------|
| <b>Change in projected benefit obligations:</b> |             |             |
| 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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

increases ranged from 1% to 4.1% depending on employees' age for the years ended December 31, 2002, 2003 and 2004.

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

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

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

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

**(15) Shareholders' Equity**

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

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

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

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

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

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



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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

**(16) Related Party Transactions**

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

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

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

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

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

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

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

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

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

**(17) Concentration of credit risk**

As of December 31, 2003 and 2004, 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

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**JUPITER PROGRAMMING CO. LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

**(18) Commitments, Other Than Leases**

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

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

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

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

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

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

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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 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 |
|-----------------------------------|------|---|

**Stockholders equity:**

|  |        |        |
|--|--------|--------|
| Common stock, A\$1 par value. 50,160,000 shares authorized, issued and outstanding | 50,160 | 50,160 |
|--|--------|--------|

|                            |  |         |
|----------------------------|--|---------|
| Additional paid-in capital |  | 107,812 |
|----------------------------|--|---------|

|  |         |         |
|--|---------|---------|
| Accumulated other comprehensive losses, net of taxes | (6,768) | (6,717) |
|--|---------|---------|

|               |  |       |
|---------------|--|-------|
| Legal reserve |  | 1,597 |
|---------------|--|-------|

|                     |         |           |
|---------------------|---------|-----------|
| Accumulated deficit | (4,520) | (130,764) |
|---------------------|---------|-----------|

|                                  |            |            |
|----------------------------------|------------|------------|
| <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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**TORNEOS Y COMPETENCIAS S.A.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE INCOME (LOSS)**

Year ended December 31,

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

|   |     |            |     |            |     |            |
|---|-----|------------|-----|------------|-----|------------|
| <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:

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

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

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

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

**Liquidity**

The Company is in default with respect to two bank loans. In addition, the Company s loans from LMI are past due. Principal and interest under these bank and LMI loans of A\$13,346 and A\$4,088, respectively, have been classified as current liabilities at December 31, 2004. See Note 7. In addition, at December 31, 2004, current liabilities exceed current assets by A\$19,135. The Company plans to renegotiate these loans to extend the repayment terms. Although the Company expects that it will be able to successfully renegotiate the bank loans that are in default and the past due loans from LMI, no assurance can be given that the Company will be

**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

successful. In the event that the Company's efforts in this regard are not successful, the Company's ability to continue as a going concern could be adversely affected in that the Company may not have sufficient funds available to meet its current liabilities as they become due and payable, particularly if payment is demanded under the aforementioned bank or LMI loans.

***Basis of presentation***

The accompanying consolidated financial statements include the accounts of TyC and all voting interest entities where TyC exercises a controlling interest through the ownership of a direct or indirect majority voting interest and variable interest entities for which TyC is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. TyC management concluded that the Company holds no interest in entities that meet the definition of variable interest entities pursuant to Financial Accounting Standards Board Interpretation No. 46(R). TyC's operating subsidiaries and TyC's most significant equity affiliates as of December 31, 2004 are set forth below:

**Operating subsidiaries as of December 31, 2004**

Avilacab S.A. ( Avilacab )  
 South American Sports S.A. ( SAS )  
 TyC Minor S.A. ( TyC Minor )

**Significant equity affiliates as of December 31, 2004**

TSC  
 TRISA  
 T&T

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

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

**2. Summary of significant accounting policies**

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

***Use of estimates***

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

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

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Inflation adjustment***

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

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

***Accounts receivable, net***

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

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

***Programming rights, net***

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

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

***Investments in affiliates accounted for under the equity method***

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

***Impairment of investments***

The Company continually reviews its investments in affiliates to determine whether a decline in fair value below the cost basis is other than non-temporary. The primary factors that the Company considers in its determination are the length of time that the fair value of the investment is below Company's carrying value and the financial condition, operating performance and near term prospects of the investee, industry specific or investee specific changes in stock price or valuation subsequent to the balance sheet date, and Company's intent and ability to hold the investment for a period of time sufficient to allow for recovery in fair value. In

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situations where the fair value of an investment is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. Writedowns for equity method investments are included in Share of earning (losses) from equity affiliates, and a new cost basis in the investment is established.

***Property and equipment, net***

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

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

|   | <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 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.

**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

| <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 |
| Total enterprise-level goodwill | A\$                    | 95,663 |

***Income Taxes***

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

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

***Minority interest***

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

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**TORNEOS Y COMPETENCIAS S.A.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Foreign currency translation***

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

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

***Revenue recognition***

The Company's principal sources of revenue are:

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

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

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

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

***Earnings per share***

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

**3. Supplemental consolidated statements of cash flows disclosures**

***a) Income tax, minimum presumed income tax and interests***

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



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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***b) Noncash investing and financing activities***

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

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

- (1) The accounts receivable will be settled by AISA by effectively assuming the obligation to repay up to A\$3,700 of principal and interest of a financial debt payable by TyC, currently in default. See Notes 6.d and 7. If as a result of the renegotiation of the loan in default, TyC pays an amount lower than A\$3.7 million, the difference will be settled by AISA through the provision of advertising by América T.V. S.A. ( América TV ), a related company of the purchasers.
- (2) Fair value was determined based on an option held by TyC to return the building to CAE for an amount of US\$1 million as per the related sales agreement signed between the parties. See note 6.d.

**4. Investments in affiliates accounted for under the equity method**

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

|              | December 31, 2004       |                    | December 31,<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. The following table reflects TyC's share of earnings (losses) from equity affiliates:

| Year Ended December 31, |      |      |
|-------------------------|------|------|
| 2004                    | 2003 | 2002 |

|                                   |            |           |              |
|-----------------------------------|------------|-----------|--------------|
| TSC                               | A\$ 2,868  | A\$ 3,502 | A\$ (193)    |
| TRISA                             | 4,678      | 8,539     | (10,084)     |
| T&T                               | 5,668      | 4,055     | 2,492        |
| Sale of Pro Entertainment S.A.(1) |            | (5,706)   |              |
| Others                            | (313)      | (963)     | (2,804)      |
| Total                             | A\$ 12,901 | A\$ 9,427 | A\$ (10,589) |

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

|   | <b>Year ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <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)   |
| <br>Operating income                                      | <br>8,874                      | <br>15,163  | <br>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.

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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             |
| <b>Total assets</b>                              | <b>A\$ 109,483</b>  | <b>A\$ 108,790</b> |
| 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             |
| <b>Total liabilities and stockholders equity</b> | <b>A\$ 109,483</b>  | <b>A\$ 108,790</b> |

(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.

|  | <b>Year ended December 31,</b> |             |             |
|--|--------------------------------|-------------|-------------|
|  | <b>2004</b>                    | <b>2003</b> | <b>2002</b> |
| <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       |

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|                              |     |       |     |         |     |          |
|------------------------------|-----|-------|-----|---------|-----|----------|
| Income tax benefit (expense) |     | 2,849 |     | (1,381) |     | (9,583)  |
| Net income (loss)            | A\$ | 9,356 | A\$ | 17,078  | A\$ | (20,168) |

- (1) Includes revenues from Cablevisión, a related party, for an amount of A\$32,938, A\$34,126 and A\$25,902 and from TyC for an amount of A\$532, A\$184 and A\$149 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.
- (2) Includes services provided by TyC for an amount of A\$14,272, A\$10,119 and A\$5,713 for the years ended December 31, 2004, 2003 and 2002, respectively. See Note 6.

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**TORNEOS Y COMPETENCIAS S.A.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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:

|   | <b>December 31,</b> |                   |
|---|---------------------|-------------------|
|   | <b>2004</b>         | <b>2003</b>       |
| <i>Financial Position</i>                         |                     |                   |
| Current assets(1)                                 | A\$ 10,441          | A\$ 11,987        |
| Non-current assets                                | 60                  | 1,411             |
| <b>Total assets</b>                               | <b>A\$ 10,501</b>   | <b>A\$ 13,398</b> |
| 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)           |
| <b>Total liabilities and stockholders' equity</b> | <b>A\$ 10,501</b>   | <b>A\$ 13,398</b> |

(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.

|  | <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)        |
| <b>Operating income</b>                                    | <b>A\$ 11,362</b>              | <b>A\$ 7,406</b> | <b>A\$ 1,714</b> |
| 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.

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Property and Equipment**

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

|   | <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             |
| <b>Total property and equipment</b>         | <b>30,517</b>       | <b>27,643</b>     |
| Less: Accumulated depreciation              | (14,827)            | (11,729)          |
| <b>Net property and equipment</b>           | <b>A\$ 15,690</b>   | <b>A\$ 15,914</b> |

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

**6. Related Party Transactions***(a) Company's affiliated entities:*

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

*(b) Balances and transactions with related parties*

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

Companies with common shareholders or directors: Cablevisión, Pramer S.C.A. and the following companies

pertaining to the Fox Group: Fox Pan American Sports LLC, Fox Sports, International Sports Programming LLC and Fox Sports International Distribution Ltd. (hereinafter referred to individually or together as FPAS).

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

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

**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  | A\$ (39)  | (100)     | (296)     |
| Others  | Rights and others                                  | (31)      | (43)      | (104)     |
|   | Total selling, general and administrative expenses | A\$ (70)  | A\$ (143) | A\$ (400) |

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

**(c) Agreement with FPAS**

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

**(d) Discontinued operations Sale of La Red**

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

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

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

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

balance sheet as of December 31, 2004.

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                          | <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> |
| Stockholders' equity     | A\$                          | 2,701        |

|   | <b>Year ended<br/>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    |
| Total debt | A\$ | 8,333(1) |

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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

*Related Party Loans:*

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

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

**8. Stockholders equity**

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

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

**9. Income tax**

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

|                             | <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) |



**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|   | <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   |

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:

|   | <b>2004</b> | <b>2003</b> | <b>2002</b>   |
|---|-------------|-------------|---------------|
| 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

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**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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,

**Table of Contents****TORNEOS Y COMPETENCIAS S.A.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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\$*

|                                | <b>2004</b>       | <b>2005</b>       |
|--------------------------------|-------------------|-------------------|
| 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> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b>  |           |                  |                     |
| <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            |                     |

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|  |                     |                     |
|--|---------------------|---------------------|
| Current portion of long-term debt  | 317,372             | 2,812,988           |
| <b>Total Current Liabilities Subject to Compromise</b>   | <b>336,916</b>      | <b>3,084,238</b>    |
| <b>Long-Term Liabilities</b>   |                     |                     |
| <b>Not subject to compromise:</b>  |                     |                     |
| 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             |
| <b>Total Long-Term Liabilities not Subject to Compromise</b>   | <b>3,999,627</b>    | <b>1,390,634</b>    |
| <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)         |
| <b>Total Stockholders Equity (Deficit)</b>   | <b>1,472,492</b>    | <b>(4,284,874)</b>  |
| <b>Total Liabilities and Stockholders Equity (Deficit)</b>   | <b>\$ 7,099,671</b> | <b>\$ 5,931,594</b> |

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)**

| <b>Statements of Operations</b>   |                     |                     |                       |
|---|---------------------|---------------------|-----------------------|
| 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)               |
| <b>Operating income (loss)</b>  | <b>(656,014)</b>    | <b>(899,282)</b>    | <b>(2,872,306)</b>    |
| Interest income, including related party income of \$985, \$2,722 and \$35,336, respectively      | 13,054              | 38,315              | 104,696               |
| Interest expense, including related party expense of \$8,218, \$24,805 and \$58,834, respectively | (327,132)           | (680,101)           | (1,070,830)           |
| Foreign currency exchange gain (loss), net  | 121,612             | 739,794             | (148,192)             |
| Gain on extinguishment of debt  | 2,183,997           | 2,208,782           | 3,447                 |
| Gain (loss) on sale of investments in affiliates, net   | 279,442             | 117,262             | (416,803)             |
| Provision for loss on investments   | —                   | (27,083)            | (342,419)             |
| Other (expense) income, net   | (14,884)            | (93,749)            | 76,907                |
| <b>Income (loss) before income taxes and other items</b>  | <b>1,600,075</b>    | <b>1,403,938</b>    | <b>(4,665,500)</b>    |
| 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)             |
| <b>Income (loss) before cumulative effect of change in accounting principle</b>                   | <b>1,995,368</b>    | <b>988,268</b>      | <b>(4,514,765)</b>    |
| <b>Cumulative effect of change in accounting principle</b>  | <b>—</b>            | <b>(1,344,722)</b>  | <b>20,056</b>         |
| <b>Net income (loss)</b>  | <b>\$ 1,995,368</b> | <b>\$ (356,454)</b> | <b>\$ (4,494,709)</b> |
| <b>Earnings per share (Note 20):</b>  |                     |                     |                       |
| 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>Preferred Stock | Class B<br>Common Stock |           | Class C<br>Common Stock |             | Additional<br>Paid-In Capital |              | Class A<br>Treasury Stock |           | Class B<br>Treasury Stock |         | Accumulated<br>Deficit |
|----------------------------|-------------------------|-----------|-------------------------|-------------|-------------------------------|--------------|---------------------------|-----------|---------------------------|---------|------------------------|
|                            | Amount                  | Shares    | Amount                  | Shares      | Amount                        | Compensation | Shares                    | Amount    | Shares                    | Amount  |                        |
| 2019                       | \$ 1,104                | 8,870,332 | \$ 89                   | 303,123,542 | \$ 3,031                      | \$ 3,683,644 | \$ (28,473)               | 7,404,240 | \$ (34,162)               |         | \$ (6,797,762)         |
| 2020                       | 21                      |           |                         |             |                               | 6,082        |                           |           |                           |         | 1,423,102              |
| 2021                       | 3                       |           |                         |             |                               | 1,351        |                           |           |                           |         |                        |
| 2022                       | 1                       |           |                         |             |                               | 258          |                           |           |                           |         |                        |
|                            |                         |           |                         |             |                               | 966,362      |                           |           |                           |         |                        |
|                            |                         |           |                         |             |                               | (129,904)    | 1,896                     |           |                           |         | 6,555                  |
|                            |                         |           |                         |             |                               |              | 26,577                    |           |                           |         |                        |
|                            |                         |           |                         |             |                               |              |                           | 188,792   |                           | 672,316 |                        |
| 2023                       | 1,744                   |           |                         |             |                               | 1,325,103    |                           | 4,780,611 | (36,333)                  |         |                        |

970 \$ 2,873 8,870,332 \$ 89 303,123,542 \$ 3,031 \$ 5,852,896 \$ 12,373,643 \$ (70,495) 672,316 \$ \$ (3,372,737)

*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                |
| <b>Total</b>                             | <b>\$ (943,165)</b>   | <b>\$ (1,112,345)</b> |

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 D Preferred Stock                |            | Class A Common Stock |        | Class B Common Stock |        | Class C Common Stock |        | Additional Paid-In Capital | Deferred Compensation | Treasury Stock | Amount    |
|---|------------|----------------------|--------|----------------------|--------|----------------------|--------|----------------------------|-----------------------|----------------|-----------|
| Shares                                  | Amount     | Shares               | Amount | Shares               | Amount | Shares               | Amount |                            |                       | Shares         | Amount    |
| (In thousands, except number of shares) |            |                      |        |                      |        |                      |        |                            |                       |                |           |
| 287,500                                 | \$ 287,500 | 98,042,205           | \$ 981 | 19,027,134           | \$ 190 |                      |        | \$ 1,537,944               | \$(74,185)            | 5,604,948      | \$(       |
|   |            |                      |        |                      |        |                      |        |                            | (156)                 |                |           |
| 287,500)                                | (287,500)  | 11,628,674           | 116    | (10,156,802)         | (101)  | 21,835,384           | 218    | 770,448                    |                       | (35,708)       |           |
|   |            |                      |        |                      |        | 281,288,158          | 2,813  | 1,396,469                  |                       |                |           |
|   |            | 600,000              | 6      |                      |        |                      |        |                            | (6)                   |                |           |
|   |            | 121,813              | 1      |                      |        |                      |        | 340                        |                       |                |           |
|   |            |                      |        |                      |        |                      |        | (21,395)                   | 12,794                |                |           |
|   |            |                      |        |                      |        |                      |        |                            |                       | 32,918         |           |
|   |            |                      |        |                      |        |                      |        |                            |                       |                | 1,835,000 |

\$ 110,392,692 \$ 1,104 8,870,332 \$ 89 303,123,542 \$ 3,031 \$ 3,683,644 \$(28,473) 7,404,240 \$(

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)**

| C<br>Stock<br>Amount | Series D<br>Preferred Stock |            | Class A<br>Common Stock |        | Class B<br>Common Stock |        | Additional<br>Paid-In<br>Capital | Deferred<br>Compensation | Treasury Stock |            | Accumul<br>Defici |
|----------------------|-----------------------------|------------|-------------------------|--------|-------------------------|--------|----------------------------------|--------------------------|----------------|------------|-------------------|
|                      | Shares                      | Amount     | Shares                  | Amount | Shares                  | Amount |                                  |                          | Shares         | Amount     |                   |
| 425,000              | 287,500                     | \$ 287,500 | 83,820,633              | \$ 838 | 19,221,940              | \$ 192 | \$ 1,531,593                     | \$(117,136)              | 5,604,948      | \$(29,984) | \$(1,892,         |
|                      |                             |            | 194,806                 | 2      | (194,806)               | (2)    |                                  |                          |                |            |                   |
|                      |                             |            | 76,504                  | 1      |                         |        | 386                              |                          |                |            |                   |
|                      |                             |            | 11,991,018              | 120    |                         |        | 19,905                           |                          |                |            |                   |
| 14,875               |                             | 10,063     |                         |        |                         |        | (1,873)                          |                          |                |            | (49,              |
| (14,875)             |                             | (10,063)   | 1,959,244               | 20     |                         |        | 24,918                           |                          |                |            |                   |
|                      |                             |            |                         |        |                         |        | (29,122)                         | 22,159                   |                |            |                   |
|                      |                             |            |                         |        |                         |        | (1,292)                          | 20,792                   |                |            |                   |
|                      |                             |            |                         |        |                         |        | (6,571)                          |                          |                |            |                   |

(4,494,

425,000 287,500 \$287,500 98,042,205 \$981 19,027,134 \$190 \$1,537,944 \$ (74,185) 5,604,948 \$(29,984) \$(6,437,

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

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

***Allowance for Doubtful Accounts***

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

***Property, Plant and Equipment***

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

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

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

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

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Goodwill and Other Intangible Assets***

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

***Investments in Affiliates, Accounted for under the Equity Method***

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

***Derivative Financial Instruments***

We use derivative financial instruments from time to time to manage exposure to movements in foreign currency exchange rates and interest rates. We account for derivative financial instruments in accordance with SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*, as amended, ( SFAS 133 ), which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. These rules require that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the statement of operations, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivative financial instruments designated and that qualify as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are recorded as a component of other comprehensive income or loss in stockholders' equity until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in earnings. The change in fair value of the hedged item is recorded as an adjustment to its carrying value on the balance sheet. For

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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

derivative financial instruments that are not designated or that do not qualify as accounting hedges, the changes in the fair value of the derivative financial instruments are recognized in earnings.

***Subscriber Prepayments and Deposits***

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

***Cable Network Revenue and Related Costs***

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

***Other Revenue and Related Costs***

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

***Concentration of Credit Risk***

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

***Stock-Based Compensation***

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

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*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 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

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(loss) attributable to common stockholders includes the accrual of dividends on convertible preferred stock which is charged directly to additional paid-in capital and/or accumulated deficit. Diluted net income (loss) per share includes the effects of potentially issuable common stock, but only if dilutive.

***Foreign Operations and Foreign Currency Exchange Rate Risk***

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

***Reclassifications***

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

**3. Acquisitions, Dispositions and Other****2003*****Acquisition of UPC Preference Shares***

On February 12, 2003, we issued 368,287 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 6, 2003, among us and Alliance Balanced Shares, Alliance Growth Fund, Alliance Global Strategic Income Trust and EQ Alliance Common Stock Portfolio. In consideration for issuing the 368,287 shares of our Class A common stock, we acquired 1,833 preference shares A of UPC, nominal value \$1.00 per share, and warrants to purchase 890,030 ordinary shares A of UPC, nominal value \$1.00 per share, at an exercise price of \$42.546 per ordinary share. On February 13, 2003, we issued 482,217 shares of our Class A common stock in a private transaction pursuant to a securities purchase agreement dated February 11, 2003, among us and Capital Research and Management Company, on behalf of The Income Fund of America, Inc., Capital World Growth and Income Fund, Inc. and Fundamental Investors, Inc. In consideration for the 482,217 shares of our Class A common stock, we acquired 2,400

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

rights that were withdrawn subsequent to December 31, 2003), as well as 4,780,611 shares to Old UGC to acquire its UGC Europe common stock. We now own all of the outstanding equity securities of UGC Europe.

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

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

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

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

Our ability to create a simpler, unified capital structure in which equity investors would participate in our equity at a single level, which would lead to greater liquidity for investors, due to the larger combined public float;

Our ability to facilitate the investment and transfer of funds between us and UGC Europe and its subsidiaries, thereby creating more efficient uses of our consolidated financial resources; and

Our assessment that the elimination of public stockholders at the UGC Europe level would create opportunities for cost reductions and organizational efficiencies through, among other things, the combination of UGC Europe's and our separate corporate functions into a better integrated, unitary corporate organization.

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|  | <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 |
| Net income (loss)  | \$ 1,805,225  | \$ (329,814) |
| Earnings per share:  |   |              |
| Basic net income (loss) per share before cumulative effect of change in accounting principle   | \$ 4.99   | \$ 1.63      |
| Cumulative effect of change in accounting principle  |   | (2.17)       |
| Basic net income (loss) per share  | \$ 4.99   | \$ (0.54)    |
| Diluted net income (loss) per share before cumulative effect of change in accounting principle | \$ 4.98   | \$ 1.63      |
| Cumulative effect of change in accounting principle  |   | (2.17)       |
| Diluted net income (loss) per share  | \$ 4.98   | \$ (0.54)    |

**2002***Merger Transaction*

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

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

Liberty contributed approximately 9.9 million shares of Old UGC Class B common stock and approximately 12.0 million shares of Old UGC Class A common stock to us and in exchange for these contributions, we issued Liberty approximately 21.8 million shares of our Class C common stock;

Certain long-term stockholders of Old UGC (the Founders ) transferred their shares of Old UGC Class B common stock to limited liability companies, which limited liability companies then merged into us. As a result of such mergers, the Founders received approximately 8.9 million shares of our Class B common stock, which number of shares equals the number of shares of Old UGC Class B common stock transferred by them to the limited liability companies; and

Four of the Founders (the Principal Founders ) contributed \$3.0 million to Old UGC in exchange for securities that, at the effective time of the merger, converted into securities representing a 0.5% interest in Old UGC and entitled them to elect one-half of Old UGC s directors.

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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As a result of the merger transaction:

Old UGC became our 99.5%-owned subsidiary, and the Principal Founders held the remaining 0.5% interest in Old UGC;

Each share of Old UGC's Class A and Class B common stock outstanding immediately prior to the merger was converted into one share of our Class A common stock;

The shares of Old UGC's Series B, C and D preferred stock outstanding immediately prior to the merger were converted into an aggregate of approximately 23.3 million shares of our Class A common stock, which amount is equal to the number of shares of Old UGC Class A common stock the holders of Old UGC's preferred stock would have received had they converted their preferred stock immediately prior to the merger;

Liberty had the right to elect four of our 12 directors;

The Founders had the effective voting power to elect eight of our 12 directors; and

We had the right to elect half of Old UGC's directors and the Principal Founders had the right to elect the other half of Old UGC's directors (see discussion below regarding a transaction that occurred on May 14, 2002, pursuant to which Old UGC became our wholly-owned subsidiary and we became entitled to elect the entire board of directors of Old UGC).

Immediately following the merger transaction:

Liberty contributed to us the UPC Exchangeable Loan which had an accreted value of \$891.7 million as of January 30, 2002 and, as a result, UPC owed the amount payable under such loan to us rather than to Liberty;

Liberty contributed \$200.0 million in cash to us;

Liberty contributed to us certain UPC bonds (the United UPC Bonds) and, as a result, UPC owed the amounts represented by the United UPC Bonds to us rather than to Liberty; and

In exchange for the contribution of these assets to us, an aggregate of approximately 281.3 million shares of our Class C common stock was issued to Liberty.

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

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

Our assumption of approximately \$304.6 million of indebtedness owed by Liberty to Old UGC; and

Cash in the amount of approximately \$143.9 million.

On January 30, 2002, Liberty loaned us approximately \$17.3 million, of which approximately \$2.3 million was used to purchase shares of redeemable preferred stock and convertible promissory notes issued by IDT United. Following January 30, 2002, Liberty loaned us an additional approximately \$85.4 million. We used the

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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 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

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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           |
| <b>Net cash deconsolidated</b>              | <b>\$ (9,249)</b> |

*Other*

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

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

*2001*

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

**4. Marketable Equity Securities and Other Investments**

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

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

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holders which reduced our ownership interest. As we no longer have the ability to exercise significant influence over SBS, we changed our accounting method from the equity method to the cost method, and marked these shares to fair value as available-for-sale securities.

**5. Property, Plant and Equipment**

|                                   | December 31,<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 |
|-----------------------------------|----------------------|----------------|----------------|------------------|---------------------------------------|---|----------------------|
| (In thousands)                    |                      |                |                |                  |                                       |   |                      |
| Customer premises equipment       | \$ 1,003,950         | \$ 95,834      | \$ (2,459)     | \$ (89,971)      | \$ 20,936                             | \$ 201,941  | \$ 1,230,231         |
| Commercial                        | 5,670                |                |                |                  |                                       | 235   | 5,905                |
| Scaleable infrastructure          | 637,171              | 44,177         |                | (23,806)         | (8,973)                               | 138,000   | 786,569              |
| Line extensions                   | 2,055,614            | 66,216         |                | (302,280)        | (3,806)                               | 373,306   | 2,189,050            |
| Upgrade/rebuild                   | 846,406              | 30,287         |                | (4,854)          | (5,653)                               | 151,127   | 1,017,313            |
| Support capital                   | 696,362              | 70,972         | (473)          | (30,874)         | 4,824                                 | 127,250   | 868,061              |
| Priority Telecom(3)               | 306,233              | 17,074         |                | (415)            | (5,357)                               | 43,521  | 361,056              |
| UPC Media                         | 83,598               | 5,833          |                | (6,438)          | (1,254)                               | 16,447  | 98,186               |
| <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)   |                      |              |                                    |   |                      |
| Europe:          |                      |              |                                    |   |                      |
| Austria          | \$ 140,349           | \$ 383       | \$ 167,209                         | \$ 31,640   | \$ 339,581           |
| Belgium          | 14,284               |              | 24,467                             | 1,747   | 40,498               |
| Czech Republic   |                      |              | 67,138                             | 1,240   | 68,378               |
| Hungary          | 73,878               | 229          | 142,809                            | 11,723  | 228,639              |
| The Netherlands  | 705,833              |              | 256,415                            | 149,310   | 1,111,558            |
| Norway           | 9,017                |              | 28,553                             | 930   | 38,500               |
| Poland           |                      |              | 36,368                             | 672   | 37,040               |
| Romania          | 20,138               |              | 2,698                              | 324   | 23,160               |
| Slovak Republic  | 3,353                |              | 22,644                             | 1,133   | 27,130               |
| Sweden           | 142,771              |              | 30,823                             | 31,270  | 204,864              |
| chellomedia      |                      |              | 122,304                            | 2,258   | 124,562              |
| UGC Europe, Inc. |                      |              | 103,720                            | 1,915   | 105,635              |
| Total            | 1,109,623            | 612          | 1,005,148                          | 234,162   | 2,349,545            |
| Latin America:   |                      |              |                                    |   |                      |
| Chile            | 140,710              |              |                                    | 29,576  | 170,286              |
| Total            | \$ 1,250,333         | \$ 612       | \$ 1,005,148                       | \$ 263,738  | \$ 2,519,831         |

(1) See Note 3.

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

**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 <sup>(1)</sup> | Disposals       | UGC<br>Europe<br>Exchange<br>Offer | Foreign<br>Currency<br>Translation<br>Adjustments | December 31,<br>2003 |
|--|----------------------|-------------------|----------------------------|-----------------|------------------------------------|---|----------------------|
| (In thousands)                           |                      |                   |                            |                 |                                    |   |                      |
| Intangible assets with definite lives:   |                      |                   |                            |                 |                                    |   |                      |
| Customer relationships                   | \$                   | \$                | \$                         | \$              | \$ 220,290                         | \$ 4,068  | \$ 224,358           |
| License fees                             | 25,075               | 1,489             | (13,871)                   | (3,815)         |                                    | 2,870   | 11,748               |
| Other                                    | 10,493               | 233               |                            | (4,132)         |                                    | 1,925   | 8,519                |
| Intangible assets with indefinite lives: |                      |                   |                            |                 |                                    |   |                      |
| Tradename                                |                      |                   |                            |                 | 22,922                             | 424   | 23,346               |
| <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.

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

**Year Ended December 31,**

**2004            2005            2006            2007            2008            Thereafter**

**(In thousands)**

|                                |           |           |           |           |           |           |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Estimated amortization expense | \$ 33,043 | \$ 31,816 | \$ 30,515 | \$ 30,515 | \$ 30,515 | \$ 72,486 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|

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**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      |
| <br>                             |                       |              |
| Total                            | 4,244,078             | 6,651,894    |
| Current portion                  | (628,176)             | (6,179,223)  |
| <br>                             |                       |              |
| 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.

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

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

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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:

|               | <b>Principal<br/>Amount at<br/>Maturity</b> |
|---------------|---|
|               | <b>(In thousands)</b>                       |
| UGC           | \$ 638,008(1)                               |
| IDT United    | 599,173(1)                                  |
| Third parties | 24,627                                      |
| <br>Total     | <br>\$ 1,261,808                            |

(1) Eliminated in consolidation.

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

any Class A Common Stock to be issued by us in these transactions is not expected to exceed \$45 million. A claim was filed in the Chapter 11 proceeding by Excite@Home. See Note 13.

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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>\$ 4,244,078</b> |

**9. Fair Value of Financial Instruments**

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

- (1) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because:
- interest on this facility is tied to variable market rates;
  - Moody's Investor Service rated the facility at B+;
  - and c) the credit agreement was amended in January 2004 to add a new 1.072 billion tranche on similar credit terms as the previous facility.
- (2) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because:
- the restructuring plan of UPC assumed this facility was valued at par (100% of carrying amount);
  - 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);
  - 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.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (5) In the absence of quoted market prices, we determined the fair value to be equivalent to carrying value because: a) interest on this facility is tied to variable market rates; b) VTR is not highly leveraged; c) VTR's results of operations exceeded budget in 2002 and 2003; d) the Chilean peso strengthened considerably in 2003; and e) in May 2003 the credit agreement was amended and restated on similar credit terms to the previous facility.
- (6) We extinguished this obligation at its carrying amount in January 2004 through the issuance of our Class A common stock at fair value.
- (7) Fair value is based on an independent valuation analysis.
- (8) Fair value of our Israeli investment was determined to be nil by an independent valuation firm in 2002. The FiBI Loan was secured by this investment. On October 30, 2002, the First International Bank of Israel ( FiBI ) and we agreed to sell our Israeli investment to a wholly-owned subsidiary of FiBI in exchange for the extinguishment of the FiBI Loan. This transaction closed on February 24, 2003.
- (9) Fair value approximates carrying value.
- The carrying value of cash and cash equivalents, subscriber receivables, other receivables, other current assets, accounts payable, accrued liabilities and subscriber prepayments and deposits approximates fair value, due to their short maturity. The fair values of equity securities are based upon quoted market prices at the reporting date.

**10. Derivative Instruments**

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

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

**11. Bankruptcy Proceedings**

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



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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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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

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

**13. Guarantees, Commitments and Contingencies*****Guarantees***

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

In connection with the acquisition of UPC's ordinary shares held by Philips Electronics N.V. ( Philips ) on December 1, 1997, UPC agreed to indemnify Philips for any damages incurred by Philips in relation to a guarantee provided by them to the City of Vienna, Austria ( Vienna Obligations ), but was not able to give such indemnification due to certain debt covenants. Following the successful tender for our bonds in January 2002, we were able to enter into an indemnity agreement with Philips with respect to the Vienna Obligations. On August 27, 2003, UPC acknowledged to us that UPC would be primarily liable for the payment of any amounts owing pursuant to the Vienna Obligations and that UPC would indemnify and hold us harmless for the payment of any amounts owing under such indemnity agreement. Historically, UPC has not made any significant indemnification payments to either Philips or us under such agreements and no material amounts have been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees, as UPC does not believe such amounts are probable of occurrence. Under the UPC Distribution Bank Facility and VTR Bank Facility, we have agreed to indemnify our lenders under such facilities against costs or losses resulting from changes in laws and regulation which would increase the lenders costs, and for legal action brought against the lenders. These indemnifications generally extend for the term of the credit facilities and do not provide for any limit on the maximum potential liability. Historically, we have not made any significant indemnification payments under such agreements and no material amounts have been accrued in the accompanying financial statements with respect to these indemnification guarantees.

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

***Commitments***

We have entered into various lease agreements for conduit and satellite transponder capacity, programming, broadcast and exhibition rights, office space, office furniture and equipment, and vehicles. Rental expense

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

under these lease agreements totaled \$69.9 million, \$48.5 million and \$63.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. We have capital and operating lease obligations and other non-cancelable commitments as follows (in thousands):

|   | <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 payments</b>                             | <b>64,842</b>             |                             |
| Lease obligations due within one year                 | (3,073)                   |                             |
| <b>Long-term lease obligations</b>                    | <b>\$ 61,769</b>          |                             |

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

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

**Contingencies**

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

**Cignal**

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





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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Excite@Home*

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

*HBO*

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

*ICH*

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

*Movieco*

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

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Philips*

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

*UGC Europe Exchange Offer*

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

**14. Minority Interests in Subsidiaries**

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

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

(2) Acquired by us in April 2003.

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

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

**15. Stockholders Equity (Deficit)*****Description of Capital Stock***

Our authorized capital stock currently consists of:

1,000,000,000 shares of Class A common stock;

1,000,000,000 shares of Class B common stock;

400,000,000 shares of Class C common stock; and

10,000,000 shares of preferred stock, all \$0.01 par value per share.

***Common Stock***

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

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

Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock at any time. Each share of Class C common stock is convertible, at the option of the holder, into one share of Class A common stock or Class B common stock at any time.

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

subdivision, combination or reclassification of one other class of common stock will be made at the same time.

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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Preferred Stock*

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

voting rights;

dividend rights;

dividend rates;

liquidation preferences;

redemption provisions;

sinking fund terms;

conversion or exchange rights;

the number of shares in the series; and

other rights, preferences, privileges and restrictions.

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

***UGC Equity Incentive Plan***

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

the various compensation incentives under the Amended Incentive Plan as the Committee may deem necessary or desirable and consistent with the terms of the Amended Incentive Plan. The Committee may,  
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under certain circumstances, delegate to our officers the authority to grant Awards to specified groups of employees and consultants. The Board has the sole authority to grant Options under the Amended Incentive Plan to non-employee directors. The maximum term of Options granted under the Amended Incentive Plan is ten years. The Committee shall determine, at the time of the award of SARs, the time period during which the SARs may be exercised and other terms that shall apply to the SARs. The Amended Incentive Plan terminates August 31, 2013. A summary of activity for the Amended Incentive Plan is as follows:

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

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

|                           | <b>Base Price</b> | <b>Number</b> | <b>Fair<br/>Value</b> | <b>Base<br/>Price</b> |
|---------------------------|-------------------|---------------|-----------------------|-----------------------|
| Less than market price(1) |                   | 15,081,775    | \$ 5.44               | \$ 3.74               |
| Equal to market price(2)  |                   | 15,081,775    | \$ 6.88               | \$ 5.44               |
| Equal to market price     |                   | 2,002,000     | \$ 4.91               | \$ 6.13               |
| Greater than market price |                   |               | \$                    | \$                    |
| Total(3)                  |                   | 32,165,550    | \$ 4.33               | \$ 4.69               |

- (1) We originally granted these SARs below fair market value on date of grant; however, upon exercise the holder will receive only the difference between the base price and the lesser of \$5.44 or the fair market value of our Class A common stock on the date of exercise.
- (2) We originally granted these SARs at fair market value on date of grant. As a result of the UGC Europe Exchange Offer and merger transaction in December 2003, we substituted UGC SARs for UGC Europe SARs.
- (3) All the SARs granted during Fiscal 2003 vest in five equal annual increments. Vesting of the SARs granted would be accelerated upon a change of control of UGC as defined in the Amended Incentive Plan. The table does not reflect the adjustment to the base prices on all outstanding SARs in January 2004. As a result of the dilution

caused by our subscription rights offering that closed in February 2004, all base prices have since been reduced by \$0.87.

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

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

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

***UGC Stock Option Plans***

During 1993, Old UGC adopted a stock option plan for certain of its employees, which was assumed by us on January 30, 2002 (the Employee Plan). The Employee Plan was construed, interpreted and administered by the Committee, consisting of all members of the Board of Directors who were not our employees. The Employee Plan provided for the grant of options to purchase up to 39,200,000 shares of Class A common stock, of which options for up to 3,000,000 shares of Class B common stock were available to be granted in lieu of options for shares of Class A common stock. The Committee had the discretion to determine the employees and consultants to whom options were granted, the number of shares subject to the options, the exercise price of the options, the period over which the options became exercisable, the term of the options (including the period after termination of employment during which an option was to be exercised) and certain other provisions relating to the options. The maximum number of shares subject to options that were allowed to be granted to any one participant under the Employee Plan during any calendar year was 5,000,000 shares. The maximum term of options granted under the Employee Plan was ten years. Options granted were either incentive stock options under the Internal Revenue Code of 1986, as amended, or non-qualified stock options. In general, for grants prior to December 1, 2000, options vested in equal monthly increments over 48 months, and for grants subsequent to December 1, 2000, options vested 12.5% six months from the date of grant and then in equal monthly increments over the next 42 months. Vesting would be accelerated upon a change of control of us as defined in the Employee Plan. At December 31, 2003, employees had options to purchase an aggregate of 10,745,692 shares of Class A common stock outstanding under The Employee Plan and options to purchase an aggregate of 3,000,000 shares of Class B common stock. The Employee Plan expired June 1, 2003. Options outstanding prior to the expiration date continue to be recognized, but no new grants of options will be made. Old UGC adopted a stock option plan for non-employee directors effective June 1, 1993, which was assumed by us on January 30, 2002 (the 1993 Director Plan). The 1993 Director Plan provided for the grant of an option to acquire 20,000 shares of our Class A common stock to each member of the Board of Directors who was not also an employee of ours (a non-employee director) on June 1, 1993, and to each person who was newly elected to the Board of

Directors as a non-employee director after June 1, 1993, on the date of their election. To allow for additional option grants to non-employee directors, Old UGC adopted a second stock option plan for non-employee directors effective March 20, 1998, which was assumed by us on January 30,

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2002 (the 1998 Director Plan), and together with the 1993 Director Plan, the Director Plans). Options under the 1998 Director Plan were granted at the discretion of our Board of Directors. The maximum term of options granted under the Director Plans was ten years. Under the 1993 Director Plan, options vested 25.0% on the first anniversary of the date of grant and then evenly over the next 36-month period. Under the 1998 Director Plan, options vested in equal monthly increments over the four-year period following the date of grant. Vesting under the Director Plans would be accelerated upon a change in control of us as defined in the respective Director Plans. Effective March 14, 2003, the Board of Directors terminated the 1993 Director Plan. At the time of termination, we had granted options for an aggregate of 860,000 shares of Class A common stock, of which 271,667 shares have been cancelled. Options outstanding prior to the date of termination continue to be recognized, but no new grants of options will be made. Pro forma information regarding net income (loss) and net income (loss) per share is required to be determined as if we had accounted for our Employee Plans and Director Plans options granted on or after March 1, 1995 under the fair value method prescribed by SFAS 123. The fair value of options granted for the years ended December 31, 2003, 2002 and 2001 reported below has been estimated at the date of grant using the Black-Scholes single-option pricing model and the following weighted-average assumptions:

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

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

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

|                                  | <b>Year Ended December 31,</b> |  |               |  |               |  |
|----------------------------------|--------------------------------|--|---------------|--|---------------|--|
|                                  | <b>2003</b>                    |  | <b>2002</b>   |  | <b>2001</b>   |  |
|                                  | <b>Number</b>                  | <b>Weighted-Average Exercise Price</b> | <b>Number</b> | <b>Weighted-Average Exercise Price</b> | <b>Number</b> | <b>Weighted-Average Exercise Price</b> |
| Outstanding at beginning of year | 16,964,230                     | \$ 7.88                                | 5,141,807     | \$ 16.16                               | 4,770,216     | \$ 16.95                               |
| Granted during the year          |                                | \$                                     | 11,970,000    | \$ 4.43                                | 543,107       | \$ 10.08                               |
| Cancelled during the year        | (3,067,084)                    | \$ 5.90                                | (147,577)     | \$ 16.66                               | (157,741)     | \$ 20.12                               |
| Exercised during the year        | (151,454)                      | \$ 3.92                                |               | \$                                     | (13,775)      | \$ 5.30                                |
|                                  | 13,745,692                     | \$ 8.36                                | 16,964,230    | \$ 7.88                                | 5,141,807     | \$ 16.16                               |

Outstanding at end of  
year

Exercisable at end of  
year

|           |         |           |          |           |          |
|-----------|---------|-----------|----------|-----------|----------|
| 8,977,124 | \$ 9.91 | 7,371,369 | \$ 10.28 | 3,125,596 | \$ 13.70 |
|-----------|---------|-----------|----------|-----------|----------|

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

**Year Ended December 31,**

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

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

**Year Ended December 31,**

|                           | <b>2002</b>           |               |                   | <b>2001</b>           |               |                   |                       |
|---------------------------|-----------------------|---------------|-------------------|-----------------------|---------------|-------------------|-----------------------|
|                           | <b>Exercise Price</b> | <b>Number</b> | <b>Fair Value</b> | <b>Exercise Price</b> | <b>Number</b> | <b>Fair Value</b> | <b>Exercise Price</b> |
| Less than market price    |                       | 2,900,000     | \$ 4.53           | \$ 2.64               | 3,149         | \$ 9.65           | \$ 5.96               |
| Equal to market price     |                       |               | \$                | \$                    | 100,000       | \$ 13.71          | \$ 17.38              |
| Greater than market price |                       | 9,270,000     | \$ 3.71           | \$ 5.00               | 939,958       | \$ 4.10           | \$ 6.62               |
| Total                     |                       | 12,170,000    | \$ 3.91           | \$ 4.44               | 1,043,107     | \$ 5.03           | \$ 7.64               |

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

**Options Outstanding****Options Exercisable**

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

### *UPC Stock Option Plans*

UPC adopted a stock option plan on June 13, 1996, as amended (the UPC Plan ), for certain of its employees and those of its subsidiaries. Options under the UPC Plan were granted at fair market value at the time of the grant, unless determined otherwise by UPC's Supervisory Board. The maximum term that the options were exercisable was five years from the date of the grant. In order to introduce the element of vesting of the options, the UPC Plan provided that even though the options were exercisable upon grant, the options were subject to repurchase rights reduced by equal monthly amounts over a vesting period of 36 months for options granted in 1996 and 48 months for all other options. Upon termination of an employee

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(except in the case of death, disability or the like), all unvested options previously exercised were resold to UPC at the exercise price and all vested options were exercised within 30 days of the termination date. UPC's Supervisory Board was allowed to alter these vesting schedules at its discretion. The UPC Plan also contained anti-dilution protection and provided that, in the case of a change of control, the acquiring company had the right to require UPC to acquire all of the options outstanding at the per share value determined in the transaction giving rise to the change of control. As a result of UPC's reorganization under Chapter 11 of the U.S. Bankruptcy Code, all of UPC's existing stock-based compensation plans were cancelled.

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

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

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

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

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

**16. Segment Information**

Our European operations are currently organized into two principal divisions-UPC Broadband and chellomedia. UPC Broadband provides video services, telephone services and high-speed Internet access services to residential

customers, and manages its business by country. chellomedia provides broadband Internet and interactive digital products and services, operates a competitive local exchange carrier business providing

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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Revenue**

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

|                                     |    |           |       |           |
|-------------------------------------|----|-----------|-------|-----------|
| Content                             |    |           |       | 9,973     |
| Other                               |    |           |       | 235       |
| Total                               |    |           |       | 155,631   |
| Corporate and other (United States) |    |           | 1,800 | 441       |
| Total                               | \$ | 1,891,530 | \$    | 1,515,021 |
|                                     |    |           | \$    | 1,561,894 |

(1) Primarily The Netherlands.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Adjusted EBITDA**

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

|                                     |            |            |              |
|-------------------------------------|------------|------------|--------------|
| Total                               |            | (282)      | (40,019)     |
| Corporate and other (United States) | (14,125)   | (12,494)   | (29,013)     |
| Total                               | \$ 628,882 | \$ 296,374 | \$ (191,243) |

(1) Primarily The Netherlands.

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

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

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                                     |           |            |              |              |              |              |
|-------------------------------------|-----------|------------|--------------|--------------|--------------|--------------|
| Corporate and other (United States) | 3,969     |            | 8,750        | 10,093       | 316,484      | 200,764      |
| Total                               | \$ 95,238 | \$ 153,853 | \$ 3,342,743 | \$ 3,640,211 | \$ 7,099,671 | \$ 5,931,594 |

(1) Primarily The Netherlands.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                                     |              |              |                |              |              |              |
|-------------------------------------|--------------|--------------|----------------|--------------|--------------|--------------|
| Australia                           |              |              |                |              |              |              |
| Broadband                           |              |              | (100,489)      |              |              | (48,291)     |
| Other                               |              |              | (1,282)        |              |              |              |
| Total                               |              |              | (101,771)      |              |              | (48,291)     |
| Corporate and other (United States) |              |              |                |              |              |              |
|                                     | (1,305)      | (1,415)      | (1,659)        | (94)         | (58)         | (790)        |
| Total                               | \$ (808,663) | \$ (730,001) | \$ (1,147,176) | \$ (333,124) | \$ (335,192) | \$ (996,411) |

(1) Primarily The Netherlands.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Impairment of Long-Lived Assets**

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

**2003**

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

**2002**

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

**2001**

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



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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Restructuring Charges and Other**

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

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

- (1) Restructuring charges and other in 2003 also includes other litigation settlements totaling \$22.2 million and costs incurred by UGC Europe related to the UGC Europe Exchange Offer and merger of \$6.7 million.
- (2) Included nil and 45 employees scheduled for termination as of December 31, 2003 and 2002, respectively.

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Income Taxes**

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

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



**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

Income tax expense (benefit) consists of:

|                      | <b>Year Ended December 31,</b> |               |              |
|----------------------|--------------------------------|---------------|--------------|
|                      | <b>2003</b>                    | <b>2002</b>   | <b>2001</b>  |
|                      | <b>(In thousands)</b>          |               |              |
| <b>Current:</b>      |                                |               |              |
| U.S. Federal         | \$ 1,008                       | \$ 23,801     | \$           |
| State and local      | 1,674                          | 4,966         |              |
| Foreign jurisdiction | 2,916                          | 5,592         | 2,506        |
|                      | <b>5,598</b>                   | <b>34,359</b> | <b>2,506</b> |

Deferred:

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|                              |           |            |             |
|------------------------------|-----------|------------|-------------|
| U.S. Federal                 | \$ 61,768 | \$ 138,746 | \$          |
| State and local              | 8,519     | 19,136     |             |
| Foreign jurisdiction         | (25,541)  | 8,941      | (43,167)    |
|                              | 44,746    | 166,823    | (43,167)    |
| Income tax expense (benefit) | \$ 50,344 | \$ 201,182 | \$ (40,661) |

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

***Foreign Tax Issues***

Because we do business in foreign countries and have a controlling interest in most of our subsidiaries, such subsidiaries are considered to be controlled foreign corporations ( CFC ) under U.S. tax law (the Code ). In general, a U.S. corporation that is a shareholder in a CFC may be required to include in its income the average adjusted tax basis of any investment in U.S. property held by a wholly or majority owned CFC to the extent that the CFC has positive current or accumulated earnings and profits. This is the case even though the U.S. corporation may not have received any actual cash distributions from the CFC. In addition, certain income earned by most of our foreign subsidiaries during a taxable year when our subsidiaries have positive earnings and profits will be included in our income to the extent of the earnings and profits when the income is earned, regardless of whether the income is distributed to us. The income, often referred to as Subpart F income, generally includes, but is not limited to, such items as interest, dividends, royalties, gains from the disposition of certain property, certain exchange gains in excess of exchange losses, and certain related party sales and services income. Since we and a majority of our subsidiaries are investors in, or are involved in, foreign businesses, we could have significant amounts of Subpart F income. Although we intend to take reasonable tax planning measures to limit our tax exposure, there can be no assurance we will be able to do so. In general, a U.S. corporation may claim a foreign tax credit against its U.S. federal income tax expense for foreign income taxes paid or accrued. A U.S. corporation may also claim a credit for foreign income taxes paid or accrued on the earnings of a foreign corporation paid to the U.S. corporation as a dividend. Because we must calculate our foreign tax credit separately for dividends received from certain of our foreign subsidiaries from those of other foreign subsidiaries and because of certain other limitations, our ability to claim a foreign tax credit may be limited. Some of our operating companies are located in countries with which the U.S. does not have income tax treaties. Because we lack treaty protection in these countries, we may be subject to high rates of withholding taxes on distributions and other payments from these operating companies and may be subject to double taxation on our income. Limitations on the ability to claim a foreign tax credit, lack of treaty protection in some countries, and the inability to offset losses in one foreign jurisdiction against income earned in another foreign jurisdiction could result in a high effective U.S. federal tax rate on our earnings. Since substantially all of our revenue is generated abroad, including in jurisdictions that do not have tax treaties with the U.S., these risks are proportionately greater for us than for companies that generate most of their revenue in the U.S. or in jurisdictions that have these treaties. We through our subsidiaries maintain a presence in 15 countries. Many of these countries maintain tax regimes that differ significantly from the system of income taxation used in the U.S., such as a value added tax



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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Earnings Per Share**

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

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|  |              |             |              |                |
|--|--------------|-------------|--------------|----------------|
| Accrual of dividends on Series C convertible preferred stock   |              | (2,397)     |              | (29,750)       |
| Accrual of dividends on Series D convertible preferred stock   |              | (1,621)     |              | (20,125)       |
| Diluted income (loss) attributable to common stockholders before cumulative effect of change in accounting principle | 3,425,025    |             | 984,250      | (4,566,513)    |
| Cumulative effect of change in accounting principle  |              | (1,344,722) |              | 20,056         |
| Diluted net income (loss) attributable to common stockholders  | \$ 3,425,025 |             | \$ (360,472) | \$ (4,546,457) |

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**UNITEDGLOBALCOM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Year Ended December 31,**

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

**21. Related Party Transactions*****Loans to Officers and Directors***

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

***Merger Transaction Loans***



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

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**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Mark L. Schneider Transactions***

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

***Gene W. Schneider Employment Agreement***

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

***Spinhalf Contract***

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

***Gene W. Schneider Life Insurance***

In 2001, Old UGC's board of directors approved a split-dollar policy on the lives of Gene W. Schneider and his spouse for \$30 million. Old UGC agreed to pay an annual premium of approximately \$1.8 million for this policy, which has a roll-out period of approximately 15 years. Old UGC's board of directors believed that this policy was a reasonable addition to Mr. Schneider's compensation package in view of his many years of service to Old UGC. Following the enactment of the Sarbanes-Oxley Act of 2002, no additional premiums have been paid by Old UGC. The policy is being continued by payments made out of the cash surrender value of the policy. In the event the law is subsequently clarified to permit Old UGC to again make the premium payments

**Table of Contents****UNITEDGLOBALCOM, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on the policy, Old UGC will pay the premiums annually until the first to occur of the death of both insureds, the lapse of the roll-out period, or at such time as The Gene W. Schneider Trust (the 2001 Trust ) fails to make its contribution to Old UGC for the premiums due on the policy. The 2001 Trust is the sole owner and beneficiary of the policy, but has assigned to Old UGC policy benefits in the amount of premiums paid by Old UGC. The Trust will contribute to Old UGC an amount equal to the annual economic benefit provided by the policy. The trustees of the Trust are the children of Mr. Schneider. Upon termination of the policy, Old UGC will recoup the premiums that it has paid.

***Programming Agreements***

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

**22. Subsequent Events*****Liberty Acquisition of Controlling Interest***

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

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

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

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**UNITEDGLOBALCOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Liberty Exercise of Preemptive Right***

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

***Rights Offering***

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

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of  
Cordillera Comunicaciones Holding Limitada:

We have audited the accompanying consolidated balance sheets of Cordillera Comunicaciones Holding Limitada and subsidiaries (the Company) as of December 31, 2003 and 2004, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 2004. 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cordillera Comunicaciones Holding Limitada and Subsidiaries at December 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in Chile, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 27 to the consolidated financial statements).

-s- Ernst & Young

ERNST & YOUNG LTDA.  
Santiago, February 25, 2005

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Consolidated Balance Sheets**  
**for the years ended December 31**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

|  | <b>As of December 31,</b> |                    |                  |
|--|---------------------------|--------------------|------------------|
|  | <b>2003</b>               | <b>2004</b>        | <b>2004</b>      |
|  | <b>ThCh\$</b>             | <b>ThCh\$</b>      | <b>ThUS\$</b>    |
|  |                           |                    | <b>Note 2(e)</b> |
| <b>ASSETS</b>  |                           |                    |                  |
| <b>CURRENT ASSETS</b>  |                           |                    |                  |
| Cash   | 210,523                   | 211,672            | 380              |
| Time deposits (Note 3)   | 6,936,432                 | 4,033,512          | 7,236            |
| Trade receivables, net (Note 4)                                  | 2,580,504                 | 2,022,823          | 3,629            |
| Notes receivable (Note 4)  | 92,652                    | 114,250            | 205              |
| Miscellaneous receivables (Note 4)                               | 2,673,926                 | 1,426,134          | 2,559            |
| Notes and accounts receivable from related<br>companies (Note 5) | 232,509                   | 228,921            | 411              |
| Recoverable income taxes, net (Note 6)                           | 76,634                    | 79,553             | 143              |
| Prepaid expenses (Note 7)  | 988,849                   | 631,278            | 1,133            |
| Deferred income taxes net (Note 6)                               | 1,375,702                 | 1,505,421          | 2,701            |
| <b>Total current assets</b>                                      | <b>15,167,731</b>         | <b>10,253,564</b>  | <b>18,397</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                             |                           |                    |                  |
| <b>(Note 8)</b>  |                           |                    |                  |
| Land   | 500,019                   | 500,019            | 897              |
| Buildings and other infrastructure                               | 118,466,606               | 120,942,228        | 216,976          |
| Machinery and equipment  | 12,044,082                | 13,453,463         | 24,136           |
| Furniture and fixtures   | 4,126,938                 | 4,380,580          | 7,859            |
| Other property, plant and equipment                              | 15,092,271                | 14,424,263         | 25,878           |
| Less: Accumulated depreciation                                   | (34,686,655)              | (44,929,770)       | (80,602)         |
| <b>Property, plant and equipment, net</b>                        | <b>115,543,261</b>        | <b>108,770,783</b> | <b>195,144</b>   |
| <b>OTHER ASSETS</b>  |                           |                    |                  |
| Investment in other companies, net (Note 9)                      | 233,512                   | 225,341            | 403              |
| Goodwill, net (Note 10)  | 62,349,750                | 58,057,299         | 104,156          |
| Intangibles, net   | 1,711,696                 | 1,539,410          | 2,761            |
| Deferred income taxes, net (Note 6)                              | 8,349,411                 | 9,536,666          | 17,109           |
| Other assets (Note 11)   | 11,585,426                | 10,682,574         | 19,164           |
| <b>Total other assets</b>  | <b>84,229,795</b>         | <b>80,041,290</b>  | <b>143,593</b>   |
| <b>TOTAL ASSETS</b>  | <b>214,940,787</b>        | <b>199,065,637</b> | <b>357,134</b>   |

| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                      |                    |                    |                |
|---|--------------------|--------------------|----------------|
| <b>CURRENT LIABILITIES</b>                                      |                    |                    |                |
| Banks and financial institutions, short-term (Note 12)          |                    | 59,325             | 106            |
| Banks and financial institutions, current portion (Note 12)     | 7,631,787          | 7,587,230          | 13,612         |
| Accounts payable (Note 13)                                      | 9,258,399          | 7,289,371          | 13,077         |
| Notes payable (Note 14)   | 12,133             | 12,193             | 22             |
| Miscellaneous payables (Note 15)                                | 1,041,968          | 14,508,434         | 26,029         |
| Notes and accounts payable to related companies (Note 5)        | 753,025            | 11,893,748         | 21,338         |
| Provisions and withholdings (Note 16)                           | 1,297,142          | 1,432,338          | 2,570          |
| Unearned revenues (Note 17)                                     | 736,997            | 680,687            | 1,221          |
| Deferred taxes (Note 6)   | 161,459            |                    |                |
| Other current liabilities (Note 18)                             | 4,292,744          | 842,019            | 1,511          |
| <b>Total current liabilities</b>                                | <b>25,185,654</b>  | <b>44,305,345</b>  | <b>79,486</b>  |
| <b>LONG-TERM LIABILITIES</b>                                    |                    |                    |                |
| Banks and financial institutions, non-current portion (Note 12) | 30,246,442         | 22,650,889         | 40,637         |
| Long-term notes payables (Note 15)                              | 14,761,670         |                    |                |
| Notes and accounts payable to related companies (Note 5)        |                    | 872,688            | 1,566          |
| Deferred taxes (Note 6)   | 3,204,918          | 3,015,508          | 5,410          |
| Other long-term liabilities                                     | 375,491            | 314,247            | 564            |
| Deferred gains (Note 19)  | 1,474,427          | 1,400,705          | 2,513          |
| <b>Total long-term liabilities</b>                              | <b>50,062,948</b>  | <b>28,254,037</b>  | <b>50,690</b>  |
| <b>Minority interest</b>  | <b>4,131,190</b>   | <b>3,670,536</b>   | <b>6,585</b>   |
| <b>Commitments and contingencies (Note 24)</b>                  |                    |                    |                |
| <b>SHAREHOLDERS EQUITY (Note 20)</b>                            |                    |                    |                |
| Paid-in capital   | 205,865,408        | 205,865,408        | 369,332        |
| Price-level restatement   | 1,852,790          | 1,852,790          | 3,324          |
| Accumulated deficit   | (58,374,521)       | (72,157,203)       | (129,451)      |
| Net loss for the year   | (13,782,682)       | (12,725,276)       | (22,832)       |
| <b>Total Shareholders equity</b>                                | <b>135,560,995</b> | <b>122,835,719</b> | <b>220,373</b> |
| <b>Total Liabilities and Shareholders equity</b>                | <b>214,940,787</b> | <b>199,065,637</b> | <b>357,134</b> |

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

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Consolidated Income Statements**  
**for the years ended December 31**

(Translation of financial statements originally issued in Spanish see Note 2)  
(Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004 except as stated)

**For the Years Ended December 31,**

|  | <b>2002</b>         | <b>2003</b>         | <b>2004</b>         | <b>2004</b>                 |
|--|---------------------|---------------------|---------------------|-----------------------------|
|  | <b>ThCh\$</b>       | <b>ThCh\$</b>       | <b>ThCh\$</b>       | <b>ThUS\$<br/>Note 2(e)</b> |
| <b>OPERATING INCOME</b>                        |                     |                     |                     |                             |
| Operating revenue                              | 47,911,196          | 46,100,072          | 45,547,636          | 81,714                      |
| Operating costs                                | (43,594,223)        | (39,034,899)        | (39,864,637)        | (71,519)                    |
| <b>Operating margin</b>                        | <b>4,316,973</b>    | <b>7,065,173</b>    | <b>5,682,999</b>    | <b>10,195</b>               |
| Administrative and selling expenses            | (15,958,113)        | (14,279,993)        | (14,328,858)        | (25,707)                    |
| <b>Operating loss</b>                          | <b>(11,641,140)</b> | <b>(7,214,820)</b>  | <b>(8,645,859)</b>  | <b>(15,512)</b>             |
| <b>NON-OPERATING INCOME</b>                    |                     |                     |                     |                             |
| Financial revenue                              | 372,907             | 218,122             | 59,530              | 107                         |
| Other non-operating income                     | 58,583              | 306,224             | 416,010             | 746                         |
| Financial expenses                             | (2,431,445)         | (2,708,735)         | (2,335,803)         | (4,191)                     |
| Other non-operating expenses (Note 21)         | (1,567,912)         | (1,129,243)         | (410,524)           | (736)                       |
| Goodwill amortization (Note 10)                | (4,207,744)         | (4,289,132)         | (4,225,945)         | (7,582)                     |
| Price-level restatement, net (Note 22)         | 294,056             | 75,810              | 349,259             | 627                         |
| Foreign currency translation (Note 22)         | (974,908)           | (1,296,437)         | (213,322)           | (383)                       |
| <b>Non-operating loss</b>                      | <b>(8,456,463)</b>  | <b>(8,823,391)</b>  | <b>(6,360,795)</b>  | <b>(11,412)</b>             |
| <b>Loss before taxes and minority interest</b> | <b>(20,097,603)</b> | <b>(16,038,211)</b> | <b>(15,006,654)</b> | <b>(26,924)</b>             |
| Tax benefit (Note 6)                           | 2,449,618           | 2,088,982           | 1,820,722           | 3,267                       |
| Minority interest                              | 88,679              | 166,547             | 460,656             | 825                         |
| <b>Net loss for the year</b>                   | <b>(17,559,306)</b> | <b>(13,782,682)</b> | <b>(12,725,276)</b> | <b>(22,832)</b>             |

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



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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**for the years ended December 31**

(Translation of financial statements originally issued in Spanish see Note 2)  
(Restated for general price-level changes and expressed in thousands of constant  
Chilean pesos as of December 31, 2004 except as stated)

**For the Years Ended December 31,**

|   | <b>2002</b>   | <b>2003</b>   | <b>2004</b>   | <b>2004</b>                 |
|---|---------------|---------------|---------------|-----------------------------|
|   | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThUS\$<br/>Note 2(e)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |               |               |               |                             |
| Net loss  | (17,559,306)  | (13,782,682)  | (12,725,276)  | (22,832)                    |
| <b>Charges (credits) to income that do not represent cash flows</b> |               |               |               |                             |
| Depreciation  | 8,764,859     | 9,748,814     | 10,296,535    | 18,471                      |
| Software and other amortization                                     | 321,353       | 448,062       | 686,750       | 1,232                       |
| Amortization of residential cable TV installations                  | 2,833,638     | 3,621,253     | 4,252,345     | 7,629                       |
| Other current amortization  |               | (14,227)      | (71,300)      | (128)                       |
| Loss on sale of fixed assets  |               | 32,309        | 25,036        | 46                          |
| Deferred taxes  | (2,622,653)   | (2,056,674)   | (1,810,281)   | (3,247)                     |
| Write-offs  | 675,653       | 290,492       | 276,638       | 496                         |
| Allowance for doubtful accounts                                     | 3,113,675     | 1,263,257     | 1,005,935     | 1,805                       |
| Vacation accrual  | 169,081       | 157,742       | 139,771       | 251                         |
| Valuation and obsolescence provision                                | 130,627       | 144,568       |               |                             |
| Goodwill amortization   | 4,207,744     | 4,289,132     | 4,225,945     | 7,582                       |
| Price-level restatement   | (294,056)     | (75,810)      | (349,259)     | (627)                       |
| Foreign Currency Translation  | 974,908       | 1,296,437     | 213,322       | 383                         |
| Accrued interest  | 915,808       | 856,174       |               |                             |
| Investment price level restatement                                  | 320,720       | (198,421)     | 39,646        | 71                          |
| Unrealised gain (loss) on forward operations                        | 859,354       | 300,314       | (3,587,789)   | (6,437)                     |
| Other   | (106,523)     | (101,597)     | (74,159)      | (133)                       |
| <b>Decrease (increase) in Assets</b>                                |               |               |               |                             |
| Trade receivables, net  | (3,725,551)   | (10,629)      | (448,254)     | (804)                       |
| Miscellaneous receivables   | (707,723)     | (943,853)     | 1,222,435     | 2,193                       |
| Notes and accounts receivable from related parties                  | 116,186       | 113,671       | (1,058)       |                             |
| Income taxes recoverable, net                                       | 842,846       | 10,498        | (2,919)       | (5)                         |
| Prepaid expenses  | 1,522,124     | (109,591)     | 66,394        | 119                         |
| Other current assets, net   | 409,755       |               |               |                             |
| <b>(Decrease) increase in Liabilities</b>                           |               |               |               |                             |
| Accounts and notes payable  | (3,925,898)   | (3,871,445)   | (2,083,614)   | (3,738)                     |
| Miscellaneous payables  | (9,918)       | 725,923       | (1,092,492)   | (1,960)                     |
| Accrued liabilities and withholdings                                | 270,724       | (55,487)      | 150,899       | 271                         |

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|   |          |           |           |       |
|---|----------|-----------|-----------|-------|
| Notes and accounts payable to related parties | 816,683  | (647,855) | 124,655   | 224   |
| Unearned revenues                             | 475,007  | (112,226) | (56,310)  | (101) |
| Other current liabilities                     |          | 313,475   | 137,064   | 246   |
| Short-term bank obligations                   |          |           | 59,325    | 106   |
| Minority interest                             | (88,678) | (166,547) | (396,710) | (712) |

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**Table of Contents****For the Years Ended December 31,**

|   | <b>2002</b>   | <b>2003</b>   | <b>2004</b>   | <b>2004</b>                 |
|---|---------------|---------------|---------------|-----------------------------|
|   | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThUS\$<br/>Note 2(e)</b> |
| <b>Total cash flows provided from (used in) operating activities</b>    | (1,299,561)   | 1,465,077     | 223,274       | 401                         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |               |               |               |                             |
| Issuance of subsidiary shares   |               | 5,047,718     |               |                             |
| Loan proceeds   | 18,365,974    |               | 11,900,000    | 21,349                      |
| Related company proceeds  |               | 2,612         |               |                             |
| Other payments to related companies                                     |               | (7,289)       |               |                             |
| Payments for bank obligations   |               | (63,068)      | (7,421,738)   | (13,315)                    |
| <b>Total cash flows from financing activities</b>                       | 18,365,974    | 4,979,973     | 4,478,262     | 8,034                       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |               |               |               |                             |
| Sale of property, plant and equipment                                   |               | 206,299       | 33,663        | 60                          |
| Purchase of property, plant and equipment                               | (3,687,334)   | (8,420,557)   | (4,039,429)   | (7,247)                     |
| Purchase of software and licenses                                       | (381,386)     | (453,475)     | (508,737)     | (913)                       |
| Additions to residential Cable TV installations                         | (4,533,873)   | (3,505,310)   | (2,915,939)   | (5,231)                     |
| <b>Total cash flows used in investing activities</b>                    | (8,602,593)   | (12,173,043)  | (7,430,442)   | (13,331)                    |
| <b>Total net cash flow for the year</b>                                 | 8,463,820     | (5,727,993)   | (2,728,906)   | (4,896)                     |
| <b>Effect of inflation on cash and cash equivalents</b>                 | (445,612)     | (129,719)     | (172,865)     | (310)                       |
| <b>Increase (decrease) of cash and cash equivalents during the year</b> | 8,018,208     | (5,857,712)   | (2,901,771)   | (5,206)                     |
| <b>Cash and cash equivalents at the beginning of the year</b>           | 4,986,459     | 13,004,667    | 7,146,955     | 12,822                      |
| <b>Cash and cash equivalents at the end of the year</b>                 | 13,004,667    | 7,146,955     | 4,245,184     | 7,616                       |

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



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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

**Note 1. The Company:**

Cordillera Comunicaciones Holding Limitada (the Company) was incorporated on December 31, 1994. On that date, the founders of the Company contributed 100% of the shares of cable television systems serving the communities of Santiago, Temuco, Viña del Mar, Valdivia, Puerto Montt, Puerto Varas and Los Angeles, Chile. This contribution resulted in dissolution of the underlying companies, with the Company assuming all of the assets and liabilities of the predecessor companies. Included in the assets of the predecessor companies are cash, property, plant and equipment and certain organizational costs contributed by the founders to the various companies prior to their dissolution.

**Note 2. Significant Accounting Policies:***(a) General:*

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Chile and the regulations established by the SVS (collectively Chilean GAAP). Certain accounting practices applied by the Company that conform with generally accepted accounting principles in Chile do not conform with generally accepted accounting principles in the United States (U.S. GAAP). A reconciliation of Chilean GAAP to U.S. GAAP is provided in Note 27. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In certain cases generally accepted accounting principles require that assets or liabilities be recorded or disclosed at their fair values. The fair value is the amount at which an asset could be bought or sold or the amount at which a liability could be incurred or settled in a current transaction between willing parties, other than in a forced or liquidation sale. Where available, quoted market prices in active markets have been used as the basis for the measurement; however, where quoted market prices in active markets are not available, the Company has estimated such values based on the best information available, including using modeling and other valuation techniques. The accompanying financial statements reflect the consolidated operations of Cordillera Comunicaciones Holding Limitada and subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The Company consolidates the financial statements of companies in which it controls over 50% of the voting shares. The Company consolidates the following subsidiaries:

|                                    | 2002 | 2003 | 2004 |
|------------------------------------|------|------|------|
|                                    | %    | %    | %    |
| Pacific Televisión Limitada        | 99.5 | 99.5 | 99.5 |
| Metrópolis Intercom S.A.           | 99.5 | 95.1 | 95.1 |
| Cordillera Comunicaciones Limitada | 99.5 | 99.5 | 99.5 |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish – see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant Chilean pesos as of December 31, 2004 except as stated)

**(b) Periods covered:**

These financial statements reflect the Company's financial position of its balance sheet as of December 31, 2003 and 2004 and its operating results and its cash flows for the years ended December 31, 2002, 2003 and 2004.

**(c) Price-level restatement:**

The Company's financial statements have been restated to reflect the effects of variations in the purchasing power of Chilean pesos during the year. For this purpose non-monetary assets and liabilities, equity and income statement accounts have been restated in terms of year-end constant pesos based on the change in the Chilean consumer price index during the years ended December 31, 2002, 2003 and 2004 at 3.0%, 1.0% and 2.5%, respectively.

**(d) Assets and liabilities denominated in foreign currency:**

Balances in foreign currencies have been translated into Chilean Pesos at the Observed Exchange Rate as reported by the Central Bank of Chile as follows:

|                   | As of December 31 |           |           |
|-------------------|-------------------|-----------|-----------|
|                   | 2002              | 2003      | 2004      |
|                   | Ch\$              | Ch\$      | Ch\$      |
| U.S. Dollar       | 718.61            | 593.8     | 557.4     |
| Unidad de Fomento | 16,744.12         | 16,920.00 | 17,317.05 |

Transactions in foreign currencies are recorded at the exchange rate prevailing when the transactions occur. Foreign currency balances are translated at the exchange rate prevailing at the month end.

**(e) Convenience translation to U.S. Dollars:**

The Company maintains its accounting records and prepares its financial statements in Chilean pesos. The United States dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader and have been translated at the closing exchange rate of Ch\$557.40 per US\$1 as of December 31, 2004. This translation should not be construed as representing that the Chilean peso amounts actually represent or have been, or could be, converted into United States dollars at that exchange rate or at any other rate of exchange.

**(f) Time deposits:**

This account corresponds to fixed term deposits in Chilean pesos, which are recorded at cost, plus inflation-indexation and accrued interest at year end.

**(g) Marketable securities:**

This account corresponds to investments in mutual funds, which are presented at their redemption value at the end of each accounting period.

**(h) Trade receivables:**

Trade receivables include sales of advertising and rendering of monthly cable television service. This balance is stated net of an allowance for uncollectible receivables. The allowance was determined by considering 100% of

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
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the receivables from subscribers who are connected to the Company's network and are over three months past due, and specifically identified debtors who have been disconnected from the Company's network or are in the process of being disconnected.

**(i) Prepaid expenses:**

Program costs, movies, series and documentaries, are capitalized and charged to expense when broadcasted or are amortized over the term of the contract, whichever is greater.

**(j) Property, plant and equipment:**

Property, plant and equipment are stated at their acquisition value and are price-level restated. Depreciation is computed using the straight-line method over the estimated remaining useful lives of the assets, which are as follows:

|                                    | <b>Years</b> |
|------------------------------------|--------------|
| Buildings and other infrastructure | 20 - 38      |
| Machinery and equipment            | 7 - 10       |
| Furniture and equipment            | 5 - 10       |
| Other                              | 5 - 7        |

The Company depreciates its fiber optic external network using a progressive method based on the projected number of subscribers per product line.

**(k) Leased assets:**

The Company has entered into financing lease agreements for property, plant and equipment, which include options to purchase at the end of the term of the agreement. These assets are not legally owned by the Company and cannot be freely disposed of until the purchase option is exercised. These assets are shown at the present value of the contract, determined by discounting the value of the installments and the purchase option at the interest rate established in the respective agreement.

**(l) Software:**

The cost of the computer applications purchased from external vendors needed for managing the Company's business is amortized using the straight-line method over an estimated useful life of four years. For the years ended December 31, 2002, 2003 and 2004 amortization charged to income amounted to ThCh\$321,353, ThCh\$448,062 and ThCh\$686,750, respectively.

**(m) Investment in other companies:**

Investments in other companies are recorded at the lower of cost adjusted by price level restatement or market value.

**(n) Goodwill:**

Goodwill is calculated as the excess of the purchase price of cable television operations acquired over their net book value and is amortized on a straight-line basis over 20 years.

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries  
Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
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**(o) Other assets:**

Other assets primarily consist of deferred costs of Cable TV residence installations or drops, which are amortized over their remaining estimated useful life which is estimated as 5 years. For the years ended December 31, 2002, 2003 and 2004 the amount amortized was ThCh\$2,833,638, ThCh\$3,621,253 and ThCh\$4,252,345 respectively.

**(p) Accrued vacation expense:**

In accordance with Technical Bulletin No. 47 issued by the Chilean Association of Accountants, employee vacation expenses are recorded on the accrual basis.

**(q) Revenue recognition and unearned revenues:**

Revenues from cable subscriptions are recognized during the month that the services are to be performed and revenues from advertising are recognized when the advertising is broadcast. Unearned revenues relate to advance billing on advertising contracts, which have not yet been broadcast. As of December 31, 2003 and 2004, deferred revenues were ThCh\$736,997 and ThCh\$680,687, respectively.

**(r) Current and deferred income taxes:**

Deferred income taxes are recorded based on timing differences between accounting and taxable income. As a transitional provision, a contra asset or liability has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such contra asset or liability amounts must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates calculated using the tax rates to be in effect at the time of reversal.

**(s) Financial derivatives:**

As of December 31, 2003, the Company maintained investments in forward contracts in order to hedge future payments related to liabilities denominated in U.S. dollars. Gains and losses on forward contracts were recorded at the closing spot exchange rate. Furthermore, gains or losses related to anticipated transactions were deferred and recorded net in other current assets or liabilities, until the sale date of the contracts.

The contracts held by the Company as of December 31, 2004 are investment contracts which are recorded at their fair values using the year-end spot exchange rate while the results are recognized in the Income Statement.

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
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**(t) Cash and cash equivalents:**

Cash and cash equivalents are comprised of cash, time deposits, repurchase agreements and marketable securities with a remaining maturity of 90 days or less as of each year-end. The detail of cash and cash equivalents as of December 31, 2003 and 2004 is as follows:

|               | <b>2003</b>      | <b>2004</b>      |
|---------------|------------------|------------------|
|               | <b>ThCh\$</b>    | <b>ThCh\$</b>    |
| Cash          | 210,523          | 211,672          |
| Time deposits | 6,936,432        | 4,033,512        |
| <b>Total</b>  | <b>7,146,955</b> | <b>4,245,184</b> |

**Note 3. Time Deposits:**

The detail of Time Deposits as of December 31, 2003 and 2004 is as follows:

**2003:**

| <b>Financial</b>         | <b>Institution</b> | <b>Currency</b> | <b>Interest Rate</b> | <b>Capital balance</b> | <b>Final Balance</b> |
|--------------------------|--------------------|-----------------|----------------------|------------------------|----------------------|
|                          |                    |                 |                      | <b>ThCh\$</b>          | <b>ThCh\$</b>        |
| Banco BCI                |                    | Chilean Pesos   | 0.20%                | 1,064,668              | 1,064,738            |
| Banco Santander-Santiago |                    | Chilean Pesos   | 0.27%                | 928,240                | 931,165              |
| Banco Santander-Santiago |                    | Chilean Pesos   | 0.25%                | 2,050,000              | 2,054,783            |
| Banco Santander-Santiago |                    | Chilean Pesos   | 0.25%                | 1,121,760              | 1,124,378            |
| Banco Santander-Santiago |                    | Chilean Pesos   | 0.22%                | 824,100                | 825,308              |
| Banco Corpbanca-Santiago |                    | Chilean Pesos   | 0.23%                | 935,415                | 936,060              |
| <b>Total</b>             |                    |                 |                      | <b>6,924,183</b>       | <b>6,936,432</b>     |

**2004:**

| <b>Financial</b> | <b>Institution</b> | <b>Currency</b> | <b>Interest Rate</b> | <b>Capital balance</b> | <b>Final Balance</b> |
|------------------|--------------------|-----------------|----------------------|------------------------|----------------------|
|------------------|--------------------|-----------------|----------------------|------------------------|----------------------|

|                          |               |       | <b>ThCh\$</b> | <b>ThCh\$</b> |
|--------------------------|---------------|-------|---------------|---------------|
| Banco BCI                | Chilean Pesos | 0.20% | 1,450,000     | 1,450,097     |
| Banco Santander-Santiago | Chilean Pesos | 0.18% | 704,500       | 705,092       |
| Banco Santander-Santiago | Chilean Pesos | 0.27% | 817,093       | 817,460       |
| Banco Santander-Santiago | Chilean Pesos | 0.18% | 1,060,800     | 1,060,863     |
| <b>Total</b>             |               |       | 4,032,393     | 4,033,512     |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
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**Note 4. Trade, Notes, and Miscellaneous Receivables:**

The detail of Trade receivables as of December 31, 2003 and 2004 is as follows:

|   | <b>2003</b>        | <b>2004</b>        |
|---|--------------------|--------------------|
|   | <b>ThCh\$</b>      | <b>ThCh\$</b>      |
| Cable Services  | 7,111,253          | 7,637,629          |
| Invoiced advertising receivable                                 | 1,767,767          | 1,525,687          |
| <b>Sub-total</b>  | <b>8,879,020</b>   | <b>9,163,316</b>   |
| Allowance for doubtful accounts-cable services monthly services | (6,165,459)        | (7,019,201)        |
| Allowance for doubtful accounts on advertisement                | (133,057)          | (121,292)          |
| <b>Total allowance for doubtful accounts</b>                    | <b>(6,298,516)</b> | <b>(7,140,493)</b> |
| <b>Total</b>  | <b>2,580,504</b>   | <b>2,022,823</b>   |

**Short-term Receivables****Long-term Receivables**

|                                  | Up to 90 days |           | More than 90 days and up to 1 Year |             | Subtotal    |             | Total Short-term Receivables (net) |           | Total Long-term Receivables |        |
|----------------------------------|---------------|-----------|------------------------------------|-------------|-------------|-------------|------------------------------------|-----------|-----------------------------|--------|
|                                  | 2003          | 2004      | 2003                               | 2004        | 2003        | 2004        | 2003                               | 2004      | 2003                        | 2004   |
|                                  | ThCh\$        | ThCh\$    | ThCh\$                             | ThCh\$      | ThCh\$      | ThCh\$      | ThCh\$                             | ThCh\$    | ThCh\$                      | ThCh\$ |
| Trade receivable                 | 2,580,504     | 2,022,823 | 6,298,516                          | 7,140,493   | 8,879,020   | 9,163,316   | 2,580,504                          | 2,022,823 |                             |        |
| Allowances for doubtful accounts |               |           | (6,298,516)                        | (7,140,493) | (6,298,516) | (7,140,493) |                                    |           |                             |        |
| Notes receivable                 | 92,652        | 114,250   | 190,395                            | 197,923     | 283,047     | 312,173     | 92,652                             | 114,250   |                             |        |
| Allowances for doubtful accounts |               |           | (190,395)                          | (197,923)   | (190,395)   | (197,923)   |                                    |           |                             |        |
|                                  | 2,673,926     | 1,426,134 | 90,842                             | 102,346     | 2,764,768   | 1,528,480   | 2,673,926                          | 1,426,134 |                             |        |

|   |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| Miscellaneous<br>Receivables<br>Allowances<br>for<br>doubtful<br>accounts | (90,842)  | (102,346) | (90,842)  | (102,346) |           |           |
| <b>Total</b>  | 5,347,082 | 3,563,207 | 5,347,082 | 3,563,207 | 5,347,082 | 3,563,207 |

Changes in allowances for doubtful accounts for the years ended December 31, 2002, 2003 and 2004 are as follows:

|                       | <b>2002</b>      | <b>2003</b>      | <b>2004</b>      |
|-----------------------|------------------|------------------|------------------|
|                       | <b>ThCh\$</b>    | <b>ThCh\$</b>    | <b>ThCh\$</b>    |
| Beginning balance     | 2,149,165        | 5,262,840        | 6,579,753        |
| Charged to expense    | 3,007,655        | 1,232,446        | 1,005,935        |
| Other                 | 106,020          | 84,467           | (144,926)        |
| <b>Ending balance</b> | <b>5,262,840</b> | <b>6,579,753</b> | <b>7,440,762</b> |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
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Miscellaneous receivables as of December 31, 2003 and 2004 are as follows:

|  | <b>2003</b>      | <b>2004</b>      |
|--|------------------|------------------|
|  | <b>ThCh\$</b>    | <b>ThCh\$</b>    |
| Raw materials                            | 294,580          | 94,147           |
| Advances to suppliers                    | 412,515          | 120,254          |
| Advances to employees                    | 4,782            | 23,494           |
| Receivables from cable services          | 1,070,971        | 733,776          |
| Receivables from advertising rights      | 206,661          |                  |
| Network receivables                      | 512,093          | 199,331          |
| Receivables from Intercom communications | 34,672           |                  |
| Other receivables                        | 137,652          | 255,132          |
| <b>Total</b>                             | <b>2,673,926</b> | <b>1,426,134</b> |

**Note 5. Balances and Transactions with Related Companies:**

(a) Short-term notes and accounts receivable from related companies as of December 31, 2003 and 2004 are as follows:

| <b>Identification</b> | <b>Company</b>                       | <b>Short-term</b> |                |
|-----------------------|--------------------------------------|-------------------|----------------|
|                       |                                      | <b>2003</b>       | <b>2004</b>    |
| <b>Number</b>         |                                      | <b>ThCh\$</b>     | <b>ThCh\$</b>  |
| 86.547.900-K          | S.A. Viña Santa Rita                 | 14,797            | 1,568          |
| 79.952.350-7          | Red Televisiva Megavisión S.A.       | 1,245             | 185            |
| 96.539.380-3          | Ediciones Financieras S.A.           |                   | 225            |
| Foreign Entity        | Crown Media                          | 25,983            | 41,105         |
| Foreign Entity        | Bresnan Communications de Chile S.A. | 190,484           | 185,838        |
| <b>Total</b>          |                                      | <b>232,509</b>    | <b>228,921</b> |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
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(b) Notes and accounts payable to related companies as of December 31, 2003 and 2004 are as follows:

| Identification<br>Number | Company   | Short-term |            | Long-term |         |
|--------------------------|---|------------|------------|-----------|---------|
|                          |   | 2003       | 2004       | 2003      | 2004    |
|                          |   | ThCh\$     | ThCh\$     | ThCh\$    | ThCh\$  |
| 83.032.100-4             | S.y C. Hendaya S.A.                               |            |            | 2         |         |
| Foreign Entity           | Bresnan Communications Company Ltd<br>partnership | 173,051    | 158,481    |           |         |
| 86.547.900-K             | S.A. Viña Santa Rita                              | 24,654     | 1,140      |           |         |
| 79.952.350-7             | Red Televisiva Megavisión S.A.                    | 64,769     | 182,566    |           |         |
| Foreign Entity           | Pramer  | 30,432     | 66,311     |           |         |
| Foreign Entity           | Crown Media                                       | 69,994     | 2,669      |           |         |
| Foreign Entity           | Discovery   | 356,059    | 300,790    |           |         |
| Foreign Entity           | DMX   | 8,746      | 10,101     |           |         |
| Foreign Entity           | USA Network                                       | 25,320     | 6,750      |           |         |
| Foreign Entity           | Liberty Media International, Inc.                 |            | 6,018,813  |           |         |
| 90.331.006-6             | Cristal Chile S.A.                                |            | 5,146,125  |           | 872,688 |
| <b>Total</b>             |   | 753,025    | 11,893,748 |           | 872,688 |

(c) Transaction with related companies during the years ended December 31, 2002, 2003 and 2004 are as follows:

| Company                      | RUT          | Relationship                     | Transactions |         |         | Net Effect in Income Statement<br>Gain (Loss) |           |           |
|------------------------------|--------------|----------------------------------|--------------|---------|---------|---|-----------|-----------|
|                              |              |                                  | 2002         | 2003    | 2004    | 2002  | 2003      | 2004      |
|                              |              |                                  | ThCh\$       | ThCh\$  | ThCh\$  | ThCh\$  | ThCh\$    | ThCh\$    |
| S.A. Viña<br>Santa Rita      | 86.547.900-K | Indirect Advertising<br>Contract | 15,848       | 19,739  | 9,447   | 15,461  | 19,739    | 9,447     |
|                              |              | Sale of<br>Products              |              | 28,088  | 958     |   | (7,809)   | (9,447)   |
| Red Televisiva<br>Megavisión | 79.952.350-7 | Indirect Advertising<br>Contract |              | 1,543   | 25,500  |   | 1,543     | 25,500    |
| Red Televisiva<br>Megavisión | 79.952.350-7 | Indirect Advertising<br>Contract | 330,831      | 208,126 | 508,456 | 322,762                                       | (208,126) | (508,456) |
|                              | 79.952.350-8 | Indirect Loans<br>receivable     |              |         |         | 1,009   |           |           |
|                              | 96.539.380-3 | Indirect                         |              | 83,279  | 26,035  |   | (83,279)  | (26,035)  |

|                                   |                |             |                         |           |           |           |           |             |          |
|-----------------------------------|----------------|-------------|-------------------------|-----------|-----------|-----------|-----------|-------------|----------|
| <b>iciones<br/>ancieras</b>       |                |             | Advertising<br>Contract |           |           |           |           |             |          |
|                                   |                |             | Advertising<br>Contract |           | 64,877    |           |           | 64,877      |          |
|                                   |                |             | Advertising<br>Contract |           |           | 128       |           |             | 1        |
| <b>mer</b>                        | Foreign entity | Indirect    | Programming<br>Signals  |           | 84,488    | 230,673   |           | (84,488)    | (230,6   |
| <b>covery</b>                     | Foreign entity | Indirect    | Programming<br>Signals  | 1,705,076 | 1,490,038 | 1,374,604 | 1,705,076 | (1,490,383) | (1,374,6 |
| <b>IX</b>                         | Foreign entity | Indirect    | Programming<br>Signals  | 11,151    | 44,385    | 1,532     | 11,151    | (44,385)    | (1,5     |
| <b>OWN<br/>EDIA</b>               | Foreign entity | Indirect    | Programming<br>Signals  | 215,016   | 211,219   | 40,713    | (318,541) | (211,219)   | (40,7    |
| <b>erty Media<br/>ernational,</b> | Foreign entity | Stockholder | Short-term<br>loans     |           |           | 6,018,813 |           |             |          |
| <b>.<br/>istal Chile<br/>.</b>    |                | Stockholder | Short-term<br>loans     |           |           | 6,018,813 |           |             |          |

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**Note 6. Income Taxes and Deferred Taxes:***a) Income taxes recoverable*

As of December 31, 2003 and 2004, the Company had the following income taxes recoverable:

|                                     | <b>2003</b>   | <b>2004</b>   |
|-------------------------------------|---------------|---------------|
|                                     | <b>ThCh\$</b> | <b>ThCh\$</b> |
| Current income taxes and Article 21 | (4,777)       | (2,213)       |
| Monthly income tax installments     | 11,565        | 11,283        |
| Credit for training expenses        | 67,821        | 68,459        |
| Credit value-added tax              | 2,025         | 2,024         |
| <b>Total</b>                        | <b>76,634</b> | <b>79,553</b> |

*b) Income taxes*

Income tax benefits for the years ended December 31, 2002, 2003, and 2004 are as follows:

|                              | <b>2002</b>      | <b>2003</b>      | <b>2004</b>      |
|------------------------------|------------------|------------------|------------------|
|                              | <b>ThCh\$</b>    | <b>ThCh\$</b>    | <b>ThCh\$</b>    |
| Credit for absorbed earnings | (167,509)        |                  |                  |
| Deferred income taxes        | 2,622,653        | 2,093,759        | 1,822,935        |
| First category tax provision | (5,526)          | (4,777)          | (2,213)          |
| <b>Total</b>                 | <b>2,449,618</b> | <b>2,088,982</b> | <b>1,820,722</b> |



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**c) Deferred Income Taxes:**

In accordance with Technical Bulletin No. 60 issued by the Chilean Association of Accountants on deferred income taxes, the Company has recorded deferred taxes for temporary differences as follows:

|  | As of December 31, 2003 |                  |                  |                    | As of December 31, 2004 |                  |             |                    |
|--|-------------------------|------------------|------------------|--------------------|-------------------------|------------------|-------------|--------------------|
|  | Assets                  |                  | Liabilities      |                    | Assets                  |                  | Liabilities |                    |
|  | Short-term              | Long-term        | Short-term       | Long-term          | Short-term              | Long-term        | Short-term  | Long-term          |
| Allowance for doubtful accounts        | 1,105,571               |                  |                  |                    | 1,247,088               |                  |             |                    |
| Goods and services provision           | 16,665                  |                  |                  |                    | 35,240                  |                  |             |                    |
| Assets provision                       |                         | 308,839          |                  |                    |                         | 348,334          |             |                    |
| Unearned revenues                      | 182,172                 |                  |                  |                    | 146,889                 |                  |             |                    |
| Vacation provision                     | 71,294                  |                  |                  |                    | 76,204                  |                  |             |                    |
| Accumulated depreciation               |                         | 3,630            |                  |                    |                         | 4,174            |             |                    |
| Forward contracts                      |                         |                  | (161,459)        |                    |                         |                  |             |                    |
| Tax loss carry forwards(1)             |                         | 14,755,016       |                  |                    |                         | 15,898,544       |             |                    |
| Trademarks                             |                         |                  |                  |                    |                         |                  |             |                    |
| Leasing                                |                         | 58,022           |                  | (65,889)           |                         | 61,298           |             | (71,751)           |
| Goodwill                               |                         |                  |                  | (3,052,475)        |                         |                  |             | (2,780,206)        |
| Trademark rights                       |                         | 2,424            |                  |                    |                         | 2,836            |             |                    |
| Software                               |                         |                  |                  | (289,160)          |                         |                  |             | (260,283)          |
| Leased installations                   |                         |                  |                  | (128,829)          |                         |                  |             | (124,575)          |
| Difference of accelerated depreciation |                         |                  |                  | (2,294,439)        |                         |                  |             | (2,141,979)        |
| Other                                  |                         |                  |                  |                    |                         |                  |             |                    |
| Complementary account                  |                         | (6,778,520)      |                  | 2,625,874          |                         | (6,778,520)      |             | 2,363,286          |
| <b>Total</b>                           | <b>1,375,702</b>        | <b>8,349,411</b> | <b>(161,459)</b> | <b>(3,204,918)</b> | <b>1,505,421</b>        | <b>9,536,666</b> |             | <b>(3,015,508)</b> |

In accordance with Law No. 19,753, the corporate income tax rate increased to 16.5% for the year 2003 and increased to 17% for the year 2004 and thereafter.

- (1) In accordance with the current enacted tax law in Chile, accumulated tax losses can be carried-forward indefinitely.

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**Note 7. Prepaid Expenses:**

Prepaid expenses as of December 31, 2003 and 2004 are follows:

|  | <b>2003</b>    | <b>2004</b>    |
|--|----------------|----------------|
|  | <b>ThCh\$</b>  | <b>ThCh\$</b>  |
| Programming rights                     | 24,874         | 20,926         |
| Advertising rights                     | 180,839        | 173,657        |
| Prepaid transmission post usage rights | 378,272        | 13,544         |
| Prepaid rent                           | 15,922         | 9,789          |
| System maintenance services            |                | 60,509         |
| Rental space for fiber optics          | 196,800        | 192,000        |
| Other                                  | 192,142        | 160,853        |
| <b>Total</b>                           | <b>988,849</b> | <b>631,278</b> |

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**Note 8. Property, Plant and Equipment:**

Property, Plant and Equipment as of December 31, 2003 and 2004 are as follows:

|  | December 31, 2003 |                             |              | December 31, 2004 |                             |              |
|--|-------------------|-----------------------------|--------------|-------------------|-----------------------------|--------------|
|  | Gross Value       | Accumulated<br>Depreciation | Depreciation | Gross Value       | Accumulated<br>Depreciation | Depreciation |
|  | ThCh\$            | ThCh\$                      | ThCh\$       | ThCh\$            | ThCh\$                      | ThCh\$       |
| Land                                       | 500,019           |                             |              | 500,019           |                             |              |
| <b>Total Land</b>                          | 500,019           |                             |              | 500,019           |                             |              |
| <b>Buildings and construction:</b>         |                   |                             |              |                   |                             |              |
| Buildings                                  | 129,330           | (25,150)                    | (3,317)      | 129,331           | (43,311)                    | (4,490)      |
| External Networks                          | 115,016,029       | (18,826,777)                | (6,092,788)  | 117,426,344       | (25,122,856)                | (6,296,079)  |
| Head Installations                         | 1,611,503         | (784,885)                   | (102,687)    | 1,629,638         | (897,113)                   | (112,229)    |
| Equipment Hub                              | 1,709,744         | (98,553)                    | (44,585)     | 1,756,915         | (184,391)                   | (85,837)     |
| <b>Total buildings and construction</b>    | 118,466,606       | (19,735,365)                | (6,243,377)  | 120,942,228       | (26,247,671)                | (6,498,635)  |
| <b>Machinery and Equipment</b>             | 12,044,082        | (7,284,298)                 | (1,488,070)  | 13,453,463        | (9,011,896)                 | (1,727,597)  |
| <b>Total machinery and equipment</b>       | 12,044,082        | (7,284,298)                 | (1,488,070)  | 13,453,463        | (9,011,896)                 | (1,727,597)  |
| <b>Office furniture and fixtures</b>       | 4,126,938         | (2,825,005)                 | (502,389)    | 4,380,580         | (3,281,016)                 | (469,760)    |
| <b>Total office furniture and fixtures</b> | 4,126,938         | (2,825,005)                 | (502,389)    | 4,380,580         | (3,281,016)                 | (469,760)    |
| <b>Other property, plant and</b>           |                   |                             |              |                   |                             |              |

|  |                    |                     |                    |                    |                     |                     |
|--|--------------------|---------------------|--------------------|--------------------|---------------------|---------------------|
| equipment:                                       |                    |                     |                    |                    |                     |                     |
| Vehicles   | 650,300            | (451,829)           | (118,173)          | 601,342            | (492,286)           | (93,794)            |
| Tools and instruments                            | 156,390            | (64,252)            | (27,247)           | 170,301            | (95,478)            | (31,226)            |
| Fixed assets in transit                          | 59,838             |                     |                    |                    |                     |                     |
| Rented office installations                      | 1,225,051          | (467,233)           | (72,610)           | 1,288,550          | (555,756)           | (88,523)            |
| Cable TV materials                               | 4,255,507          |                     |                    | 1,764,499          |                     |                     |
| Work in progress                                 | 1,464,705          |                     |                    | 588,888            |                     |                     |
| Decoding equipment                               | 6,938,997          | (3,844,929)         | (1,292,481)        | 9,523,417          | (5,180,464)         | (1,335,543)         |
| Leased assets                                    | 341,483            | (13,744)            | (4,467)            | 487,266            | (65,203)            | (51,457)            |
| <b>Total other property, plant and equipment</b> | <b>15,092,271</b>  | <b>(4,841,987)</b>  | <b>(1,514,978)</b> | <b>14,424,263</b>  | <b>(6,389,187)</b>  | <b>(1,600,543)</b>  |
| <b>Total property, plant and equipment</b>       | <b>150,229,916</b> | <b>(34,686,655)</b> | <b>(9,748,814)</b> | <b>153,700,553</b> | <b>(44,929,770)</b> | <b>(10,296,535)</b> |

**Note 9. Investment in Other Companies:**

The Company has investments in other companies valued at their cost of acquisition plus price level restatement.

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Investments in other companies as of December 31, 2003 and 2004 are as follows:

|                       | <b>2003</b>    | <b>2004</b>    |
|-----------------------|----------------|----------------|
|                       | <b>ThCh\$</b>  | <b>ThCh\$</b>  |
| Bazuca.Com Chile S.A. | 157,041        | 143,819        |
| Internet Holding S.A. | 283,560        | 283,560        |
| Provision             | (207,089)      | (202,038)      |
| <b>Total</b>          | <b>233,512</b> | <b>225,341</b> |

**Note 10. Goodwill, net:**  
**2003:**

|   | <b>December 31, 2003</b> |                                     |                   |
|---|--------------------------|-------------------------------------|-------------------|
|   | <b>Gross Value</b>       | <b>Accumulated<br/>Amortization</b> | <b>Net Value</b>  |
|   | <b>ThCh\$</b>            | <b>ThCh\$</b>                       | <b>ThCh\$</b>     |
| Metropolis  | 50,137,914               | (30,773,552)                        | 19,364,362        |
| Goodwill generated from the purchase of CTC<br>stocks                                 | 53,086,511               | (6,635,814)                         | 46,450,697        |
| Price-level restatement   | 1,032,245                | (377,274)                           | 654,971           |
| Amortization  |                          | (4,279,614)                         | (4,279,614)       |
| <b>Total</b>  | <b>104,256,670</b>       | <b>(42,066,254)</b>                 | <b>62,190,416</b> |
| Goodwill generated from the purchase of CTC<br>Plataforma Técnica Red Multimedia S.A. | 193,133                  | (24,281)                            | 168,852           |
| Amortization of CTC   |                          | (9,518)                             | (9,518)           |
|   | 193,133                  | (33,799)                            | 159,334           |
| <b>Balance as of December 31, 2003</b>  | <b>104,449,803</b>       | <b>(42,100,053)</b>                 | <b>62,349,750</b> |

**2004:**

|  | <b>December 31, 2004</b> |                                     |                  |
|--|--------------------------|-------------------------------------|------------------|
|  | <b>Gross Value</b>       | <b>Accumulated<br/>Amortization</b> | <b>Net Value</b> |

|   | ThCh\$             | ThCh\$              | ThCh\$            |
|---|--------------------|---------------------|-------------------|
| Metropolis  | 49,404,189         | (41,040,248)        | 8,363,941         |
| Goodwill generated from the purchase of CTC<br>stocks                                 | 52,309,635         |                     | 52,309,635        |
| Price-level restatement   | 2,542,846          | (1,092,511)         | 1,450,335         |
| Amortization  |                    | (4,216,289)         | (4,216,289)       |
| <b>Total</b>  | <b>104,256,670</b> | <b>(46,349,048)</b> | <b>57,907,622</b> |
| Goodwill generated from the purchase of CTC<br>Plataforma Técnica Red Multimedia S.A. | 193,133            | (33,799)            | 159,334           |
| Amortization of CTC   |                    | (9,657)             | (9,657)           |
|   | 193,133            | (43,456)            | 149,677           |
| <b>Balance as of December 31, 2004</b>  | <b>104,449,803</b> | <b>(46,392,504)</b> | <b>58,057,299</b> |

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Goodwill amortization charge to income for the years ended December 31, 2002, 2003 and 2004 amounted to ThCh\$4,207,744, ThCh\$4,289,132 and ThCh\$4,225,945, respectively.

**Note 11. Other Assets:**

Other assets as of December 31, 2003 and 2004 are as follows:

|  | <b>2003</b>       | <b>2004</b>       |
|--|-------------------|-------------------|
|  | <b>ThCh\$</b>     | <b>ThCh\$</b>     |
| Other investments  | 2,104             | 2,084             |
| Rental guarantees  | 118,168           | 114,453           |
| Residential cable TV installations                             | 20,390,501        | 23,352,776        |
| Accumulated amortization of Residential Cable TV installations | (9,830,394)       | (14,082,739)      |
| Rental hubs, external net                                      | 422,779           | 931,205           |
| Administrative projects-in-progress                            | 34,837            | 41,520            |
| Other assets   | 447,431           | 322,275           |
| <b>Total</b>   | <b>11,585,426</b> | <b>10,682,574</b> |

The amortization charge to income for residential cable TV installations for the years ended December 31, 2002, 2003 and 2004 amounted to ThCh\$2,833,638, ThCh\$3,621,253, and ThCh\$4,252,345, respectively.

**Note 12. Banks and Financial Institutions:**

(a) Short term obligations with banks and financial institutions as of December 31, 2003 and 2004 are as follows:

| <b>Bank or Institution</b>          | <b>Types of currency and readjustment</b> |               |               |               |               |               |
|-------------------------------------|---|---------------|---------------|---------------|---------------|---------------|
|                                     | <b>U.S. Dollars</b>                       |               | <b>UF</b>     |               | <b>TOTAL</b>  |               |
|                                     | <b>2003</b>                               | <b>2004</b>   | <b>2003</b>   | <b>2004</b>   | <b>2003</b>   | <b>2004</b>   |
|                                     | <b>ThCh\$</b>                             | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> |
| <b>Short-term</b>                   |   |               |               |               |               |               |
| Banco BCI                           |   | 59,325        |               |               |               | 59,325        |
| <b>Total</b>                        |   | <b>59,325</b> |               |               |               | <b>59,325</b> |
| <b>Total capital owed</b>           |   | 59,296        |               |               |               | 59,296        |
| <b>Annual Average Interest Rate</b> |   | 3.46%         |               |               |               | 3.46%         |
| <b>Current portion of long-term</b> |   |               |               |               |               |               |
| Banco Santander-Santiago            |   |               | 3,077,651     | 3,061,244     | 3,077,651     | 3,061,244     |
| Banco BCI                           |   |               | 1,470,568     | 1,461,600     | 1,470,568     | 1,461,600     |
| Banco Estado                        |   |               | 1,541,565     | 1,532,298     | 1,541,565     | 1,532,298     |



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|                                     |                  |                  |                  |                  |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Banco Corpbanca                     | 1,542,003        | 1,532,088        | 1,542,003        | 1,532,088        |
| <b>Total</b>                        | <b>7,631,787</b> | <b>7,587,230</b> | <b>7,631,787</b> | <b>7,587,230</b> |
| <b>Total Capital owed</b>           | <b>7,561,611</b> | <b>7,550,296</b> |                  |                  |
| <b>Annual Average Interest Rate</b> |                  |                  | <b>3.14%</b>     |                  |

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|  | <b>December 31,</b> |             |
|--|---------------------|-------------|
|  | <b>2003</b>         | <b>2004</b> |
| Total short-term liabilities denominated in foreign currency | 0.0%                | 0.8%        |
| Total short-term liabilities denominated in local currency   | 100.0%              | 99.2%       |

(b) Long-term obligations with banks and financial institutions:

On July 8, 2001, the Company entered into a syndicated loan agreement led by Banco Santander-Santiago of up to UF2,823,800 with interest rates fixed at the date of issuance based on the current 180 day Chilean Active Banking Rate (TAB) plus 1.4% due semi-annually, maturing in December 15, 2008.

Scheduled maturities of long-term bank obligations as of December 31, 2003 and 2004 are as follows:

| Financial institution    | Currency | Interest rate % | <b>December 31, 2003</b>    |                  | <b>December 31, 2004</b> |                  |                            | Total Long-term Obligations |
|--------------------------|----------|-----------------|-----------------------------|------------------|--------------------------|------------------|----------------------------|-----------------------------|
|                          |          |                 | Total Long-term Obligations | Due in 1-2 Years | Due in 2-3 Years         | Due in 3-5 Years | More than 5 Years Maturity |                             |
|                          |          |                 | ThCh\$                      | ThCh\$           | ThCh\$                   | ThCh\$           | ThCh\$                     |                             |
| Banco Santander-Santiago | U.F.     | 3.00%           | 12,206,882                  | 3,047,154        | 3,047,154                | 3,047,155        | Dec-2008                   | 9,141,463                   |
| Banco BCI                | U.F.     | 3.13%           | 5,825,926                   | 1,454,302        | 1,454,302                | 1,454,302        | Dec-2008                   | 4,362,906                   |
| Banco Corpbanca          | U.F.     | 3.13%           | 6,106,824                   | 1,524,422        | 1,524,422                | 1,524,422        | Dec-2008                   | 4,573,266                   |
| Banco Estado             | U.F.     | 3.00%           | 6,106,810                   | 1,524,418        | 1,524,418                | 1,524,418        | Dec-2008                   | 4,573,254                   |
| <b>Total</b>             |          |                 | 30,246,442                  | 7,550,296        | 7,550,296                | 7,550,297        |                            | 22,650,889                  |

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2003</b>         | <b>2004</b> |
| Total liabilities denominated in foreign currency | 0.0%                | 0.0%        |
| Total liabilities denominated in local currency   | 100.0%              | 100.0%      |

**Note 13. Accounts Payable:**

The detail of Accounts payable as of December 31, 2003 and 2004 are as follows:

|                        | <b>2003</b>      | <b>2004</b>      |
|------------------------|------------------|------------------|
|                        | <b>ThCh\$</b>    | <b>ThCh\$</b>    |
| Suppliers              | 5,501,600        | 4,778,425        |
| Programming            | 2,804,636        | 1,959,010        |
| Fees                   | 5,416            | 5,920            |
| Other accounts payable | 946,747          | 546,016          |
| <b>Total</b>           | <b>9,258,399</b> | <b>7,289,371</b> |

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**Note 14. Notes Payable:**

Notes payable as of December 31, 2003 and 2004 are as follows:

|                                | <b>2003</b>   | <b>2004</b>   |
|--------------------------------|---------------|---------------|
|                                | <b>ThCh\$</b> | <b>ThCh\$</b> |
| Uncollected stale dated checks | 12,133        | 12,193        |
| <b>Total</b>                   | 12,133        | 12,193        |

**Note 15. Miscellaneous Payables:**

Balance of short-term miscellaneous payable as of December 31, 2003 and 2004 are as follows:

|                              | <b>2003</b>   | <b>2004</b>   |
|------------------------------|---------------|---------------|
|                              | <b>ThCh\$</b> | <b>ThCh\$</b> |
| Telefónica CTC Chile S.A.(1) | 219,227       | 14,496,161    |
| Comunicaciones Intercom S.A. | 85,531        |               |
| San Felipe-Los Andes network | 724,217       |               |
| Others                       | 12,993        | 12,273        |
| <b>Total</b>                 | 1,041,968     | 14,508,434    |

(1) On July 30, 2001, in connection with the purchase transaction involving Compañía de Telecomunicaciones de Chile S.A. (CTC), the Company entered into a loan agreement with CTC for a total of ThUS\$20,000 payable over 5 years with an annual interest rate of 6%. The accounts payable balance resulting from this transaction as of December 31, 2003 was classified as long-term debt and amounted to ThCh\$14,761,670. In 2004, the long-term debt was reclassified to short-term and as of December 31, 2004 amounted to ThCh\$14,496,161.

The balance of long-term notes payable as of December 31, 2003 and 2004 are as follows:

|                  |                  | <b>Long-term</b> |               |
|------------------|------------------|------------------|---------------|
| <b>Principal</b> | <b>Principal</b> | <b>2003</b>      | <b>2004</b>   |
| <b>ThUS\$</b>    | <b>ThUS\$</b>    | <b>ThUS\$</b>    | <b>ThUS\$</b> |
| 20,000           | 11,146,000       | 14,761,670       |               |

**Note 16. Provisions and withholdings:**

The balance of provisions and withholdings as of December 31, 2003 and 2004 is as follows:

|              | <b>2003</b>      | <b>2004</b>      |
|--------------|------------------|------------------|
|              | <b>ThUS\$</b>    | <b>ThUS\$</b>    |
| Vacations    | 487,092          | 520,943          |
| Audit fees   | 3,467            | 3,463            |
| Withholdings | 686,627          | 799,376          |
| Suppliers    | 89,644           | 73,945           |
| Others       | 30,312           | 34,611           |
| <b>Total</b> | <b>1,297,142</b> | <b>1,432,338</b> |

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(Translation of financial statements originally issued in Spanish see Note 2)  
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**Note 17. Unearned Revenues:**

Unearned revenues correspond to advertising contracts which have not yet been realized. As of December 31, 2003 and 2004 unearned revenue amounted to ThCh\$736,997 and ThCh\$680,687, respectively.

**Note 18. Other Current Liabilities:**

Other current liabilities as of December 31, 2003 and 2004 are as follows:

|  | 2003         | 2004        |
|--|--------------|-------------|
|  | ThCh\$       | ThCh\$      |
| Forward contract rights                              | (24,573,611) | (7,246,200) |
| Forward contract obligations                         | 29,927,432   | 8,108,271   |
| Deferred loss from forward contract                  | (949,758)    |             |
| Deferred interest from forward contract              | (484,948)    | (47,803)    |
| Deferred interest amortization from forward contract | 373,629      | 27,751      |
| <b>Total</b>   | 4,292,744    | 842,019     |

The forward contracts held by the Company as of December 31, 2004 are investments contracts and the results have been recognized in the Income Statement.

As of December 31, 2003, the Company maintained investments in hedge contracts in order to minimize US\$ currency exchange differences (cash-flow and fair value hedges).

In accordance with Technical Bulletin No. 57 ( BT No. 57 ) issued by Colegio de Contadores de Chile A.G. any income (loss) generated on these forward contracts to cover exchange rate fluctuations in US dollar obligations must be recognized simultaneously with the payment terms of the US dollar obligation.

In addition in according with BT No. 57 forward contracts undertaken and timed to cover future cash payments of foreign programming suppliers are deferred and recognized in income at the date contract of maturity.

Forward contracts as of December 31, 2003 are detailed as follows:

| Financial Institution | Amount in US\$ | Maturity | Rate  | Deferred Income (loss) | Net income |
|-----------------------|----------------|----------|-------|------------------------|------------|
|                       |                |          |       | Th\$                   | Th\$       |
| BCI                   | 250,000        | 01-06-04 | 2.13% |                        | (33,683)   |
| SECURITY              | 1,000,000      | 01-02-04 | 1.61% |                        | (139,949)  |
| SECURITY              | 500,000        | 01-02-04 | 1.26% |                        | (68,700)   |
| SECURITY              | 500,000        | 01-02-04 | 1.17% |                        | (68,344)   |
| SECURITY              | 1,000,000      | 01-05-04 | 0.97% |                        | (132,126)  |
| SECURITY              | 250,000        | 01-05-04 | 1.41% |                        | (33,840)   |
| SECURITY              | 250,000        | 01-06-04 | 2.27% |                        | (33,935)   |
| SECURITY              | 250,000        | 01-06-04 | 2.04% |                        | (33,251)   |
| CORPBANCA             | 500,000        | 01-06-04 | 1.07% |                        | (66,406)   |

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|           |         |          |       |          |
|-----------|---------|----------|-------|----------|
| CORPBANCA | 250,000 | 01-06-04 | 1.45% | (33,909) |
| CORPBANCA | 250,000 | 01-06-04 | 2.10% | (33,620) |
| BCI       | 500,000 | 01-30-04 | 1.50% | (78,147) |
| SECURITY  | 500,000 | 01-31-04 | 0.00% | (83,896) |
| SECURITY  | 500,000 | 02-01-04 | 3.10% | (82,045) |

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(Translation of financial statements originally issued in Spanish see Note 2)  
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| <b>Financial Institution</b> | <b>Amount in US\$</b> | <b>Maturity</b> | <b>Rate</b> | <b>Deferred Income (loss)</b> | <b>Net income</b> |
|------------------------------|-----------------------|-----------------|-------------|-------------------------------|-------------------|
|                              |                       |                 |             | <b>Th\$</b>                   | <b>Th\$</b>       |
| SECURITY                     | 500,000               | 02-02-04        | 1.76%       |                               | (83,447)          |
| SECURITY                     | 500,000               | 02-03-04        | 1.75%       |                               | (83,401)          |
| SECURITY                     | 500,000               | 02-04-04        | 1.71%       |                               | (83,262)          |
| SECURITY                     | 500,000               | 02-05-04        | 1.78%       |                               | (83,494)          |
| SECURITY                     | 500,000               | 02-06-04        | 1.68%       |                               | (83,170)          |
| SECURITY                     | 1,000,000             | 02-07-04        | 2.33%       |                               | (168,878)         |
| SECURITY                     | 500,000               | 02-08-04        | 1.48%       |                               | (86,718)          |
| CORPBANCA                    | 500,000               | 02-09-04        | 2.48%       |                               | (82,931)          |
| CORPBANCA                    | 500,000               | 02-10-04        | 2.30%       |                               | (82,282)          |
| CORPBANCA                    | 500,000               | 02-11-04        | 2.81%       |                               | (84,066)          |
| BCI                          | 500,000               | 02-12-04        | 2.52%       |                               | (87,201)          |
| BCI                          | 500,000               | 02-13-04        | 2.67%       |                               | (87,669)          |
| BCI                          | 500,000               | 02-14-04        | 2.55%       |                               | (87,286)          |
| BCI                          | 250,000               | 02-15-04        | 2.64%       |                               | (43,792)          |
| SECURITY                     | 500,000               | 02-16-04        | 2.32%       |                               | (86,720)          |
| SECURITY                     | 500,000               | 02-17-04        | 0.87%       | (81,781)                      |                   |
| SECURITY                     | 500,000               | 02-18-04        | 0.75%       |                               | (78,310)          |
| SECURITY                     | 500,000               | 02-19-04        | 1.08%       | (74,423)                      |                   |
| BCI                          | 550,000               | 02-20-04        | 1.53%       |                               | (76,646)          |
| BCI                          | 500,000               | 02-21-04        | 1.49%       |                               | (69,565)          |
| BCI                          | 500,000               | 02-22-04        | 1.47%       |                               | (69,527)          |
| BCI                          | 250,000               | 02-23-04        | 2.43%       |                               | (35,358)          |
| BCI                          | 250,000               | 02-24-04        | 2.23%       |                               | (35,084)          |
| BCI                          | 500,000               | 02-25-04        | 2.43%       |                               | (70,716)          |
| BCI                          | 1,000,000             | 02-26-04        | 2.23%       |                               | (140,316)         |
| BCI                          | 1,000,000             | 02-27-04        | 2.09%       |                               | (139,550)         |
| BCI                          | 500,000               | 02-28-04        | 2.05%       |                               | (69,660)          |
| BCI                          | 500,000               | 02-29-04        | 2.20%       |                               | (70,082)          |
| SECURITY                     | 600,000               | 03-01-04        | 0.72%       |                               | (86,075)          |
| SECURITY                     | 2,500,000             | 03-02-04        | 1.74%       |                               | (351,342)         |
| SECURITY                     | 750,000               | 03-03-04        | 1.53%       | (102,090)                     |                   |
| SECURITY                     | 750,000               | 03-04-04        | 1.12%       | (98,624)                      |                   |
| CORPBANCA                    | 450,000               | 03-05-04        | 1.52%       |                               | (62,693)          |
| SECURITY                     | 3,000,000             | 03-06-04        | 1.76%       |                               | (354,082)         |
| SECURITY                     | 1,000,000             | 03-07-04        | 2.48%       |                               | (120,464)         |
| SECURITY                     | 500,000               | 03-08-04        | 2.48%       |                               | (60,232)          |
| SECURITY                     | 500,000               | 03-09-04        | 2.43%       |                               | (60,122)          |
| SECURITY                     | 1,000,000             | 03-10-04        | 1.69%       |                               | (118,089)         |



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|           |         |          |       |          |
|-----------|---------|----------|-------|----------|
| CORPBANCA | 750,000 | 03-11-04 | 2.13% | (94,050) |
| ESTADO    | 750,000 | 03-12-04 | 2.00% | (90,699) |
| ESTADO    | 750,000 | 03-13-04 | 1.98% | (90,632) |
| ESTADO    | 300,000 | 03-14-04 | 1.76% | (38,305) |
| ESTADO    | 200,000 | 03-15-04 | 1.69% | (25,500) |
| ESTADO    | 250,000 | 03-16-04 | 1.53% | (31,748) |
| ESTADO    | 500,000 | 03-17-04 | 1.38% | (62,029) |
| ESTADO    | 500,000 | 03-18-04 | 1.23% | (61,805) |
| ESTADO    | 500,000 | 03-19-04 | 0.75% | (51,336) |

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(Translation of financial statements originally issued in Spanish see Note 2)  
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| <b>Financial</b> | <b>Institution</b> | <b>Amount in US\$</b> | <b>Maturity</b> | <b>Rate</b> | <b>Deferred<br/>Income<br/>(loss)</b> | <b>Net income</b> |
|------------------|--------------------|-----------------------|-----------------|-------------|---------------------------------------|-------------------|
|                  |                    |                       |                 |             | <b>Th\$</b>                           | <b>Th\$</b>       |
|                  | ESTADO             | 500,000               | 03-20-04        | 0.69%       | (46,736)                              |                   |
| <b>Subtotal</b>  |                    | 37,350,000            |                 |             | (949,758)                             | (4,304,081)       |
|                  | ESTADO             | 500,000               | 01-30-04        | 2.49%       |                                       | 1,491             |
|                  | ESTADO             | 1,500,000             | 02-27-04        | 1.58%       |                                       | 4,124             |
|                  | ESTADO             | 1,000,000             | 01-30-04        | 0.94%       |                                       | 5,722             |
| <b>Subtotal</b>  |                    | 3,000,000             |                 |             |                                       | 11,337            |
| <b>Total</b>     |                    |                       |                 |             | (949,758)                             | (4,292,744)       |

Forward contracts as of December 31, 2004 are detailed as follows:

| <b>Financial</b> | <b>Institution</b> | <b>Amount<br/>in US\$</b> | <b>Maturity</b> | <b>Rate</b> | <b>Deferred<br/>Income (loss)</b> | <b>Net income</b> |
|------------------|--------------------|---------------------------|-----------------|-------------|-----------------------------------|-------------------|
|                  |                    |                           |                 |             | <b>ThCh\$</b>                     | <b>ThCh\$</b>     |
|                  | ESTADO             | 1,125,000                 | 07-01-05        | 0.70%       |                                   | (38,369)          |
|                  | ESTADO             | 2,250,000                 | 07-01-05        | 1.11%       |                                   | (148,894)         |
|                  | SECURITY           | 250,000                   | 07-01-05        | 0.08%       |                                   | (13,086)          |
|                  | SECURITY           | 250,000                   | 07-01-05        | (0.11)%     |                                   | (12,862)          |
|                  | SECURITY           | 250,000                   | 07-01-05        | 0.04%       |                                   | (12,120)          |
|                  | SECURITY           | 375,000                   | 07-01-05        | 0.43%       |                                   | (25,970)          |
|                  | ESTADO             | 300,000                   | 07-01-05        | (0.40)%     |                                   | (17,142)          |
|                  | ESTADO             | 500,000                   | 07-01-05        | (0.14)%     |                                   | (25,657)          |
|                  | ESTADO             | 1,000,000                 | 07-01-05        | 0.13%       |                                   | (48,896)          |
|                  | ESTADO             | 375,000                   | 07-01-05        | 0.20%       |                                   | (25,604)          |
|                  | ESTADO             | 1,125,000                 | 07-01-05        | 0.24%       |                                   | (77,164)          |
|                  | SECURITY           | 1,125,000                 | 07-01-05        | 0.27%       |                                   | (77,325)          |
|                  | ESTADO             | 500,000                   | 07-01-05        | 1.10%       |                                   | (39,535)          |
|                  | ESTADO             | 1,000,000                 | 07-01-05        | 1.45%       |                                   | (80,367)          |
|                  | ESTADO             | 750,000                   | 07-01-05        | 0.11%       |                                   | (59,660)          |
|                  | ESTADO             | 825,000                   | 07-01-05        | 1.00%       |                                   | (69,043)          |
|                  | SECURITY           | 1,000,000                 | 07-01-05        | (0.57)%     |                                   | (70,325)          |
| <b>Total</b>     |                    | 13,000,000                |                 |             |                                   | (842,019)         |

**Note 19. Deferred Gains:**

During the year ended December 31, 2003, the Company's subsidiary Metropolis Intercom S.A. issued an additional 3,923,834 shares raising ThCh\$4,924,603 in cash. The Company did not subscribe to any of the shares. As the cash received was greater than the related increase in minority interest, the Company recorded a deferred gain of ThCh\$1,493,092 which will be amortized to income over future periods and as of December 31, 2003 and 2004 was ThCh\$1,474,427 and ThCh\$1,400,705, respectively. The amortization recognized as of December 31, 2003 and 2004 was ThCh\$18,665 and ThCh\$73,721, respectively.

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(Translation of financial statements originally issued in Spanish see Note 2)  
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**Note 20. Shareholders Equity:**

The changes in shareholders equity in the years ended December 31, 2002, 2003 and 2004 are as follows:

|   | <b>Paid-in<br/>Capital</b> | <b>Price-level<br/>restatement</b> | <b>Accumulated<br/>Deficit</b> | <b>Net loss<br/>for the year</b> | <b>Total</b>  |
|---|----------------------------|------------------------------------|--------------------------------|----------------------------------|---------------|
|   | <b>ThCh\$</b>              | <b>ThCh\$</b>                      | <b>ThCh\$</b>                  | <b>ThCh\$</b>                    | <b>ThCh\$</b> |
| <b>Balance as of<br/>January 1, 2002</b>              | 193,063,828                | 1,737,575                          | (24,279,630)                   | (13,997,522)                     | 156,524,251   |
| Reclassification of<br>prior year net loss            |                            |                                    | (13,997,522)                   | 13,997,522                       |               |
| Price-level restatement                               | 5,791,915                  | 52,126                             | (1,148,315)                    |                                  | 4,695,726     |
| Net loss for the year                                 |                            |                                    |                                | (16,961,416)                     | (16,961,416)  |
| <b>Balance as of<br/>December 31, 2002</b>            | 198,855,743                | 1,789,701                          | (39,425,467)                   | (16,961,416)                     | 144,258,561   |
| Price-level restatement<br>for comparison<br>purposes | 200,844,300                | 1,807,600                          | (39,819,722)                   | (17,131,030)                     | 145,701,148   |
| <b>Balance as of<br/>January 1, 2003</b>              | 198,855,743                | 1,789,701                          | (39,425,467)                   | (16,961,416)                     | 144,258,561   |
| Reclassification of<br>prior year net loss            |                            |                                    | (16,961,416)                   | 16,961,416                       |               |
| Price-level restatement                               | 1,988,557                  | 17,899                             | (563,869)                      |                                  | 1,442,587     |
| Net loss for the year                                 |                            |                                    |                                | (13,446,519)                     | (13,446,519)  |
| <b>Balance as of<br/>December 31, 2003</b>            | 200,844,300                | 1,807,600                          | (56,950,752)                   | (13,446,519)                     | 132,254,629   |
| Price-level restatement<br>for comparison<br>purposes | 205,865,408                | 1,852,790                          | (58,374,521)                   | (13,782,682)                     | 135,560,995   |
| <b>Balance as of<br/>January 1, 2004</b>              | 200,844,300                | 1,807,600                          | (56,950,752)                   | (13,446,519)                     | 132,254,629   |
| Reclassification of<br>prior year net loss            |                            |                                    | (13,446,519)                   | 13,446,519                       |               |
| Price-level restatement                               | 5,021,108                  | 45,190                             | (1,759,932)                    |                                  | 3,306,366     |
| Net loss for the year                                 |                            |                                    |                                | (12,725,276)                     | (12,725,276)  |
|   | 205,865,408                | 1,852,790                          | (72,157,203)                   | (12,725,276)                     | 122,835,719   |

**Balance as of  
December 31, 2004****Note 21. Other non-operating expenses:**

The composition of other non-operating expenses for the years ended December 31, 2002, 2003 and 2004 is as follows:

|                            | <b>2002</b>      | <b>2003</b>        | <b>2004</b>      |
|----------------------------|------------------|--------------------|------------------|
|                            | <b>ThCh\$</b>    | <b>ThCh\$</b>      | <b>ThCh\$</b>    |
| Disposal of equipment      | (811,091)        | (290,492)          | (280,536)        |
| Write-off of investments   | (209,155)        |                    |                  |
| Provision for obsolescence | (121,037)        | (144,568)          |                  |
| Other                      | (426,629)        | (694,183)          | (129,988)        |
| <b>Total</b>               | <b>1,567,912</b> | <b>(1,129,243)</b> | <b>(410,524)</b> |

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**Note 22. Price-Level Restatement and Foreign Currency Translation:***(a) Price Level Restatement*

The detail of price-level restatement credited (charged) to income for the year ended December 31 is as follows:

|   | <b>2002</b>    | <b>2003</b>   | <b>2004</b>    |
|---|----------------|---------------|----------------|
|   | <b>ThCh\$</b>  | <b>ThCh\$</b> | <b>ThCh\$</b>  |
| Shareholders equity                           | (4,885,680)    | (1,486,080)   | (3,322,980)    |
| Non-monetary assets                           | 6,190,388      | 1,982,111     | 4,574,684      |
| Liabilities denominated in foreign currencies | (1,045,644)    | (405,590)     | (832,510)      |
| Revenue accounts                              | 34,992         | (14,631)      | (69,935)       |
| <b>Price-level restatement, net</b>           | <b>294,056</b> | <b>75,810</b> | <b>349,259</b> |

*(b) Foreign Currency Translation*

The detail of foreign currency translation charged to income for the year ended December 31 is as follows:

|  | <b>2002</b>      | <b>2003</b>        | <b>2004</b>      |
|--|------------------|--------------------|------------------|
|  | <b>ThCh\$</b>    | <b>ThCh\$</b>      | <b>ThCh\$</b>    |
| Non-monetary assets                              | 1,594,773        | (5,566,768)        | (1,336,350)      |
| Non-monetary liabilities                         | (2,569,681)      | 4,270,331          | 1,123,028        |
| <b>Net loss for foreign currency translation</b> | <b>(974,908)</b> | <b>(1,296,437)</b> | <b>(213,322)</b> |

**Note 23. Board of Directors Compensation:**

During the years ended December 31, 2002, 2003 and 2004 the Board of Directors did not receive compensation for their services.

**Note 24. Contingencies and Commitments:***(a) Commitments*

On June 8, 2001, the Company obtained a syndicated loan with Banco Santiago, Banco del Estado de Chile, Banco Crédito Inversiones and CorpBanca, for UF 2,823,800. To guarantee the loans, Metrópolis Intercom S.A. pledged the following assets in favor of the aforementioned banks: Hybrid Fiber optic Coaxial Network ( HFC ), its equipment and other real estate.

The Company's syndicated loan has certain restrictive covenants, the most significant of which are summarized below:

- The Company must have a financial expense coverage ratio equal to or greater than 4 times.
- Debt to asset ratio must be less than or equal to 0.85.

The Company has received bank waivers which releases them from the obligation to meet the financial coverage ratio and permits the Company not to consider liabilities to shareholders in the calculation of the debt to asset ratio. In accordance with the above, the Company as of December 31, 2004, is in compliance with these covenants or has received the appropriate bank waivers.



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***(b) Contingencies***

1) The Company is party to various lawsuits arising in the ordinary course of its business. Management considers it unlikely that any losses associated with the pending lawsuits will significantly affect the Company or its subsidiaries results of operations, financial position and cash flows, although no assurance can be given to such effect. Accordingly, the Company has not established a provision for these lawsuits.

2) Complaint filed by TVN y Corporación de Televisión UCTV against the Company, before the 26th Civil Court of Santiago. Claim against alleged infractions of intellectual property rights, in which the complainant solicits retroactive termination of the use of the intellectual property, starting from the notification date of the lawsuit. The amounts involved in the case have not been disclosed.

3) Counter claim filed by Metrópolis Intercom S.A. against channels 7 and 13 for fees to which Metrópolis Intercom S.A. claims it has rights because it incurs significant increases in advertising investments related to carrying signals for these channels. The Company is suing for 20% of the total amount related to advertising investments received by channels 7 and 13 since 1996.

4) On December 9, 2004, the Chilean Subsecretary of Telecommunications ( Subtel ) notified the Company that the regulatory agency considered Metropolis s Intercom Voice Over Internet Protocol ( MI s VOIP ) services were in violation of Article No. 8 of the General Telecommunications Law. Subtel alleged that the Company was exploiting a public utility (telephone service) without the express consent of the appropriate regulatory agency and ordered that the Company cease commercial operations related to that service until the issue was resolved.

As the matter is not yet resolved by the relevant authority, the Minister of Telecommunications, the Company has requested that the order be suspended. This suspension was subsequently granted for a period of 60 days.

Furthermore, on December 19, 2004, the Company filed its defense to the allegations made by Subtel, and is currently awaiting the next step of this legal matter.

Currently, the Company is awaiting Subtel s decision with respect to the Company s observations. Most likely, Subtel will decide to accept evidence from the Company that supports its position.

The eventual decision of the Minister of Transportation and Telecommunications can be appealed before the Court of Appeals. If the resolution is confirmed by the Court, determining that the service does not meet current regulations, the Company will be obligated to suspend or modify its services, as determined by Subtel.

**Note 25. Relevant Events:**

On January 9, 2004, Cristal Chile Comunicaciones S.A., 50% owner of the Company, reached an agreement of understanding with Liberty Media International, indirect owner of the remaining 50% of the Company and majority shareholder of VTR S.A. in order to merge Metropolis and VTR. The agreement is subject to numerous conditions, among them, drafting of a final agreement, approval by the board of directors of related parties of Liberty Media including UnitedGlobalCom, Inc., approval by the Chilean Anti-Monopoly Commission, and approval by the board of directors of CristalChile Comunicaciones S.A.

**Note 26. Subsequent Events (Unaudited):**

On March 11, 2005 the Supreme Court gave its permission for the merger of Metropolis-Intercom S.A. and VTR S.A. to proceed, thereby overcoming the last legal obstacle for the merger to be approved. As a result Cordillera Comunicaciones Holding Limitada was liquidated as of March 29, 2005 and its investment in



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Metropolis was transferred to VTR S.A. Metropolis will continue its operation as a separate legal entity. Other assets and liabilities were assumed by the shareholders of Cordillera Comunicaciones Holding Limitada.

**Note 27. Differences between Chilean and United States Generally Accepted Accounting Principles:**

Accounting principles generally accepted in Chile vary in certain important aspects from those generally accepted in the United States of America. Such differences involve certain methods for measuring the amounts included in the financial statements as well as additional disclosures required by U.S. GAAP.

The principal differences between Chilean GAAP and U.S. GAAP are described below together with explanations, where appropriate, of the method used in the determination of the adjustments that affect net income and total shareholders equity. References made below to the United States Statements of Financial Accounting Standards are abbreviated as SFAS .

The preparation of financial statements in conformity with Chilean GAAP, along with the reconciliation to U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

***I. Differences in measurement methods***

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts that differ from those that would have otherwise been determined under U.S. GAAP, are as follows:

*(a) Inflation accounting:*

The cumulative inflation rate in Chile as measured by the Consumer Price Index for the three years ended December 31, 2004 was 6.6%.

Chilean GAAP requires that the financial statements be restated to reflect the full effects of the loss in the purchasing power of the Chilean peso on the financial position and results of operations of reporting entities.

The method, described in Note 2(c), is based on a model which enables calculation of net inflation gains or losses caused by monetary assets and liabilities exposed to changes in the purchasing power of local currency, by restating all non-monetary accounts in the financial statements. The model prescribes that the historical cost of such accounts be restated for general price-level changes between the date of origin of each item and the year-end, but requires that latest cost values be used for the restatement of inventories. Under U.S. GAAP, financial statement amounts must be reported in historical currency.

The inclusion of price-level adjustments in the accompanying financial statements is considered appropriate under the prolonged inflationary conditions affecting the Chilean economy even though the cumulative inflation rate for the last three years does not exceed 100%. The reconciliation included herein of consolidated net income and Shareholders equity, as determined with U.S. GAAP, does not include adjustments to eliminate the effect of inflation accounting under Chilean GAAP.

*(b) Deferred income taxes:*

Starting January 1, 2000, the Company recorded income taxes in accordance with Technical Bulletin No. 60 (BT No. 60) of the Chilean Association of Accountants, recognizing, using the liability method, the deferred

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tax effects of temporary differences between the financial and tax values of assets and liabilities. As a transitional provision, a contra asset or liability ( complementary account ) has been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such contra asset or liability must be amortized to income over the estimated average reversal periods corresponding to the underlying temporary differences to which the deferred tax asset or liability relates.

Under U.S. GAAP, companies must account for deferred taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes , which requires an asset and liability approach for financial accounting and reporting of income taxes, under the following basic principles:

- (i) A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and tax loss carry-forwards.
- (ii) The measurement of deferred tax liabilities and assets is based on the provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated.
- (iii) The measurement of deferred tax assets are reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion of the deferred tax assets will not be realized.

Temporary differences are defined as any difference between the financial reporting basis and the tax basis of an asset and liability that at some future date will reverse, thereby resulting in taxable income or expense. Temporary differences ordinarily become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the amount of taxes payable or refundable in future years as a result of temporary differences at the end of the current year.

As of December 31, 2003 and 2004, a valuation allowance was recorded under U.S. GAAP to reduce the deferred tax asset resulting from tax loss carry-forwards to the amount that is more likely than not to be realized.

The effect of the differences mentioned above and the effects of deferred taxes over the adjustments to U.S. GAAP on the net loss and shareholders equity of the Company are included in paragraph (j) below.

*(c) Goodwill:*

Under Chilean GAAP at the time of related acquisitions, assets acquired and liabilities assumed were recorded based on their carrying value in the records of the acquired company, and the excess of the purchase price over the carrying value was recorded as goodwill. Such amounts are currently being amortized over a maximum period of 20 years. Under U.S. GAAP, assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired is recorded as goodwill, unless the transaction is between entities under common control, in which case the related party transaction would be recorded using book values and no goodwill would be recorded. Prior to July 1, 2002 under U.S. GAAP, the Company amortized goodwill on a straight-line basis over the estimated useful lives of the assets, ranging from 20 to 40 years.

Under Chilean GAAP, the Company has evaluated the carrying amount of goodwill for impairment. The evaluation of impairment was based on the fair value of the investment which the Company determined using a discounted cash flow approach, stock valuations and recent comparable transactions in the market. In order

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to estimate fair value, the Company made assumptions about future events that are highly uncertain at the time of estimation. The results of this analysis showed that the Company's goodwill was not impaired.

In accordance with U.S. GAAP, the Company adopted SFAS No. 142 Goodwill and Other Intangible Assets, (SFAS 142) as of January 1, 2002. SFAS 142 applies to all goodwill and identified intangible assets acquired in a business combination. Under the new standard, all goodwill, including that acquired before initial application of the standard, and indefinite-lived intangible assets are not amortized, but must be tested for impairment at least annually. Previously, the Company evaluated the carrying amount of goodwill, in relation to the operating performance and future undiscounted cash flows of the underlying business and the transitional impairment test required by the standard, which was performed during the first half of 2003, which resulted in no impairment of the Company's recorded goodwill.

The following effects are included in the net loss and shareholders' equity reconciliation to U.S. GAAP under paragraph (j) below:

(a) Adjustment to record differences in goodwill amortization between Chile GAAP and U.S. GAAP as of December 31, 2001, and

(b) The reversal of goodwill amortization recorded under Chilean GAAP for the years ended December 31, 2002, 2003 and 2004.

Impairment is recorded based on an estimate of future discounted cash flows, as compared to current carrying amounts. For the years ended December 31, 2002, 2003, and 2004 no additional amounts were recorded for impairment under U.S. GAAP.

Goodwill under U.S. GAAP as of December 31 2002, 2003 and 2004 is summarized as follows:

|                          | <b>For the Years Ended December 31,</b> |                   |                   |
|--------------------------|---|-------------------|-------------------|
|                          | <b>2002</b>                             | <b>2003</b>       | <b>2004</b>       |
|                          | <b>ThCh\$</b>                           | <b>ThCh\$</b>     | <b>ThCh\$</b>     |
| Goodwill                 | 104,449,801                             | 104,449,801       | 104,449,801       |
| Accumulated amortization | (25,926,695)                            | (25,926,695)      | (25,926,695)      |
| <b>Goodwill, net</b>     | <b>78,523,106</b>                       | <b>78,523,106</b> | <b>78,523,106</b> |

The effect of these differences on the net loss and shareholders' equity of the Company is included in paragraph (j) below.

*(d) Derivative instruments:*

For the years ended December 31, 2002, 2003 and 2004, the Company continued to have foreign currency forward exchange contracts for the purpose of transferring risk from exposure in U.S. dollars to an exposure in Chilean peso. Under Chilean GAAP, the Company deferred forward contract gains and losses when the contracts are hedges for future program payments and other cash out flows to be made in U.S. dollars. The hedging criteria and documentation requirements under Chilean GAAP are less onerous than U.S. GAAP. The Company recorded a net liability of ThCh\$4,292,744 as of December 31, 2003 and a net liability of ThCh\$842,019 as of December 31, 2004. Fair values under Chilean GAAP have been estimated using the closing spot exchange rate at year end, under US GAAP the fair value is calculated using a forward rate as of year-end.



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Beginning January 1, 2002, under U.S. GAAP, the accounting for derivative instruments is described in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and other complementary rules and amendments. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires 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 or losses to offset against related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, in part, allows special hedge accounting for fair value and cash flow hedges. SFAS No. 133 provides that the gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk be recognized currently in earnings in the same accounting period. While the Company enters into derivatives for the purpose of mitigating its global financial and commodity risks, these operations do not meet the documentation requirements to qualify for hedge accounting under U.S. GAAP. Therefore changes in the respective fair values of all derivatives are reported in earnings when they occur. The effect of the adjustment between the current market values and the fair value for the years ended December 31, 2002, 2003 and 2004 is included in paragraph (j) below

*(e) Depreciation:*

Under Chilean GAAP, the Company depreciates the external network using a progressive method based on the projected number of subscribers per product line. Under U.S. GAAP, the method of depreciation used has continued to be the straight-line method.

The effect of accounting for this difference in accordance with U.S. GAAP is included in the reconciliation of net loss and shareholders' equity in paragraph (j) below.

*(f) Revenue recognition:*

The Company recognizes 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 cost. 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.

*(g) Investments in marketable securities:*

Under Chilean GAAP, investments in debt and equity securities are accounted for at the lower of cost or market value. Under U.S. GAAP investments in debt and equity securities are accounted for according to the purpose for which these investments are held. U.S. GAAP defines three distinct purposes for holding investments:

Investments held for trading purposes

Investments available-for-sale

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**Investments held to maturity**

The Company considers that all of its investments are available-for-sale.

The effect of recording the marketable securities at fair value is not material and is not included in the effects on shareholders' equity under paragraph (j) below.

*(h) Issuance of shares in subsidiary:*

During the year ended December 31, 2003 Metropolis Intercom S.A. issued an additional 3,923,834 shares representing 4.4% of Metropolis Intercom S.A. to related parties. The Company did not subscribe to any of these shares.

Under Chilean GAAP, as the cash received was greater than the related increase in minority interest the Company recorded a deferred gain of ThCh\$1,455,918 (historic value), which will be amortized into income in future periods. Under U.S. GAAP, the transfer would be recorded at the lower of carrying value or fair value, since the cash received was less than the carrying value of Metropolis Intercom S.A. under U.S. GAAP. Consequently under U.S. GAAP, the difference between the cash proceeds and the carrying value has been recorded as a distribution to shareholders. The effect of eliminating the income statement impact of this transaction from net loss as determined under Chilean GAAP and recording this transaction under U.S. GAAP is included in paragraph (j) below.

*(i) Effect of minority interests on U.S. GAAP adjustments:*

The effects of recording minority interests on U.S. GAAP adjustments are included in the reconciliation to U.S. GAAP in paragraph (j) below.

*(j) Effect of conforming net loss and shareholders' equity to U.S. GAAP:*

The adjustments required to conform reported net loss to U.S. GAAP are as follows:

**For the Year Ended December 31,**

|   | <b>2002</b>         | <b>2003</b>         | <b>2004</b>        |
|---|---------------------|---------------------|--------------------|
|   | <b>ThCh\$</b>       | <b>ThCh\$</b>       | <b>ThCh\$</b>      |
| Net loss in accordance with Chilean GAAP                            | (17,559,306)        | (13,782,682)        | (12,725,276)       |
| Deferred taxes (paragraph b)  | (2,023,771)         | (1,042,069)         | (1,124,442)        |
| Amortization of goodwill (paragraph c)                              | 4,269,791           | 4,289,132           | 4,225,945          |
| Derivative instruments (paragraph d)                                | 153,218             | (1,155,215)         | 1,039,953          |
| Depreciation (paragraph e)  | (1,254,758)         | (1,531,846)         | (742,030)          |
| Issuance of subsidiaries shares (paragraph h)                       |                     | (18,665)            | (73,721)           |
| Effect of minority interests on U.S. GAAP adjustments (paragraph i) |                     | 309,040             | 82,970             |
| <b>Net loss and comprehensive loss in accordance with U.S. GAAP</b> | <b>(16,414,826)</b> | <b>(12,932,305)</b> | <b>(9,316,601)</b> |

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The adjustments required to conform reported shareholders' equity to U.S. GAAP are as follows:

|   | <b>As of December 31,</b> |                    |
|---|---------------------------|--------------------|
|   | <b>2003</b>               | <b>2004</b>        |
|   | <b>ThCh\$</b>             | <b>ThCh\$</b>      |
| Shareholders' equity, in accordance with Chilean GAAP               | 135,560,995               | 122,835,719        |
| Deferred income taxes (paragraph b)                                 | (3,225,187)               | (4,349,629)        |
| Effect in amortization of goodwill (paragraph c)                    | 16,239,862                | 20,465,806         |
| Derivative instruments (paragraph d)                                | (998,224)                 | 41,729             |
| Depreciation (paragraph e)  | (4,320,097)               | (5,062,127)        |
| Issuance of subsidiary shares (paragraph h)                         | (972,327)                 | (1,046,048)        |
| Effect of minority interests on U.S. GAAP adjustments (paragraph i) | 309,039                   | 392,010            |
| <b>Shareholders' equity, in accordance with U.S. GAAP</b>           | <b>142,594,061</b>        | <b>133,277,460</b> |

The following summarizes the changes in shareholders' equity under U.S. GAAP during the years ended December 31, 2002, 2003 and 2004:

|  | <b>For the Year Ended December 31,</b> |                    |                    |
|--|--|--------------------|--------------------|
|  | <b>2002</b>                            | <b>2003</b>        | <b>2004</b>        |
|  | <b>ThCh\$</b>                          | <b>ThCh\$</b>      | <b>ThCh\$</b>      |
| Balance as of January 1                                      | 172,894,854                            | 156,480,028        | 142,594,061        |
| Issuance of subsidiary shares (paragraph h)                  |  | (953,662)          |                    |
| Net loss and comprehensive loss in accordance with U.S. GAAP | (16,414,826)                           | (12,932,305)       | (9,316,601)        |
| <b>Balance as of December 31</b>                             | <b>156,480,028</b>                     | <b>142,594,061</b> | <b>133,277,460</b> |

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**II. Additional disclosure requirements**

The following additional disclosures are required under U.S. GAAP:

*(a) Income taxes:*

Deferred tax assets (liabilities) are summarized as follows as of December 31 under U.S. GAAP:

|   | <b>2003</b>        | <b>2004</b>        |
|---|--------------------|--------------------|
|   | <b>ThCh\$</b>      | <b>ThCh\$</b>      |
| <b>Deferred Tax Assets</b>                                    |                    |                    |
| Allowance for doubtful debts                                  | 1,105,571          | 1,247,088          |
| Goods and services provision                                  | 16,665             | 35,240             |
| Assets provision  |                    |                    |
| Unearned revenues   | 182,172            | 146,889            |
| Vacation provision  | 71,294             | 76,204             |
| Forward contract  | 169,698            | (7,094)            |
| Tax loss carry-forwards                                       | 14,755,016         | 15,898,544         |
| Trademarks  |                    |                    |
| Assets provision  | 308,839            | 348,334            |
| Leasing   | 58,022             | 61,298             |
| Trademark rights  | 2,424              | 2,836              |
| Accumulated depreciation                                      | 738,046            | 864,735            |
| <b>Total deferred tax assets</b>                              | <b>17,407,747</b>  | <b>18,674,074</b>  |
| <b>Deferred Tax Liabilities</b>                               |                    |                    |
| Forward contracts   | (161,459)          |                    |
| Leasing operations  | (65,889)           | (71,751)           |
| Accumulated depreciation                                      | (2,294,439)        | (2,141,979)        |
| Goodwill  | (4,972,368)        | (4,933,213)        |
| Software  | (289,160)          | (260,283)          |
| Rented installations  | (128,829)          | (124,575)          |
| <b>Total deferred tax liabilities</b>                         | <b>(7,912,144)</b> | <b>(7,531,801)</b> |
| Net deferred tax asset (liability) before valuation allowance | 9,495,603          | 11,142,273         |
| Valuation allowance   | (6,362,054)        | (7,465,323)        |
| <b>Net deferred tax asset (liability)</b>                     | <b>3,133,549</b>   | <b>3,676,950</b>   |



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The classification of the net deferred tax asset before valuation allowance detailed above is as follows:

|                                     | <b>2003</b>      | <b>2004</b>       |
|-------------------------------------|------------------|-------------------|
|                                     | <b>ThCh\$</b>    | <b>ThCh\$</b>     |
| Short-term                          | 1,383,942        | 1,498,327         |
| Long-term                           | 8,111,661        | 9,643,946         |
| <b>Net deferred tax liabilities</b> | <b>9,495,604</b> | <b>11,142,273</b> |

The deferred income tax benefit in accordance with U.S. GAAP is as follows:

|   | <b>2002</b>    | <b>2003</b>      | <b>2004</b>    |
|---|----------------|------------------|----------------|
|   | <b>ThCh\$</b>  | <b>ThCh\$</b>    | <b>ThCh\$</b>  |
| Deferred income tax benefit, Chile GAAP Note 6        | 2,449,618      | 2,088,982        | 1,820,722      |
| Additional deferred tax adjustment, U.S. GAAP,<br>net | (2,023,771)    | (1,042,069)      | (1,124,442)    |
| <b>Deferred income tax benefit under U.S. GAAP</b>    | <b>425,847</b> | <b>1,046,913</b> | <b>696,280</b> |

***Permanent differences***

Amortization of goodwill is the only permanent income tax difference.

*(b) Foreign currency forward contract capacity:*

The Company's Board of Directors approves policies on risk-management of forward currency risk through the use of U.F. to U.S. dollar forward contracts. The Company petitions several Chilean and foreign banks to approve forward contract limits on a yearly basis, which in the aggregate, total US\$73 million, US\$50 million and US\$50 million as of December 31, 2002, 2003 and 2004, respectively. There was US\$24.8 million, US\$9.7 million and US\$39.9 million available as of December 31, 2002, 2003 and 2004, respectively.

*(c) Lease agreements:*

The Company leases computer equipment and office space by way of capital lease payable in installments through 2016, with a bargain purchase option at the end of the lease.

Minimum lease payments under capital leases are as follows:

|            | <b>Capital</b> |
|------------|----------------|
|            | <b>ThCh\$</b>  |
| 2005       | 51,070         |
| 2006       | 32,518         |
| 2007       | 29,808         |
| 2008       | 32,518         |
| Thereafter | 230,354        |

|  |                |
|--|----------------|
| Total future minimum lease payments                | 376,268        |
| Interest   | (99,603)       |
| <b>Present value of net minimum lease payments</b> | <b>276,665</b> |

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Lease obligations for the years ended December 31, 2003 and 2004 are as follows:

|            | 2003    | 2004    |
|------------|---------|---------|
| Short-term | 38,625  | 94,313  |
| Long-term  | 278,357 | 275,519 |

*(d) Advertising costs:*

Advertising costs are expensed as incurred and amounted to ThCh\$2,096,739, ThCh\$2,473,895 and ThCh\$2,138,229 for the years ended December 31, 2002, 2003 and 2004, respectively.

*(e) Reclassification differences between Chilean GAAP and U.S. GAAP:*

The following reclassifications are required to conform the presentation of Chilean GAAP income statement information to that required under U.S. GAAP for the years ended December 31, 2002, 2003 and 2004. The reclassification amounts are determined in accordance with Chilean GAAP.

**Year Ended December 31, 2002**

|                        | <b>Chilean<br/>GAAP</b> | <b>Reclassification</b> | <b>U.S. GAAP<br/>Presentation</b> |
|------------------------|-------------------------|-------------------------|-----------------------------------|
|                        | <b>ThCh\$</b>           | <b>ThCh\$</b>           | <b>ThCh\$</b>                     |
| Operating loss         | (11,641,140)            | (5,286,981)             | (16,928,121)                      |
| Non-operating expenses | (8,456,463)             | 5,286,981               | (3,169,482)                       |

**Year Ended December 31, 2003**

|                        | <b>Chilean<br/>GAAP</b> | <b>Reclassification</b> | <b>U.S. GAAP<br/>Presentation</b> |
|------------------------|-------------------------|-------------------------|-----------------------------------|
|                        | <b>ThCh\$</b>           | <b>ThCh\$</b>           | <b>ThCh\$</b>                     |
| Operating loss         | (7,214,820)             | (4,894,029)             | (12,108,849)                      |
| Non-operating expenses | (8,823,391)             | 4,894,029               | (3,929,362)                       |

**Year Ended December 31, 2004**

|                        | <b>Chilean<br/>GAAP</b> | <b>Reclassification</b> | <b>U.S. GAAP<br/>Presentation</b> |
|------------------------|-------------------------|-------------------------|-----------------------------------|
|                        | <b>ThCh\$</b>           | <b>ThCh\$</b>           | <b>ThCh\$</b>                     |
| Operating loss         | (8,645,859)             | (4,220,459)             | (12,866,318)                      |
| Non-operating expenses | (6,360,795)             | 4,220,459               | (2,140,336)                       |

The following reclassifications are required to conform the presentation of Chilean GAAP balance sheet information to that required under U.S. GAAP for the years ended December 31, 2003 and 2004. The reclassification amounts are determined in accordance with Chilean GAAP.

**Year Ended December 31, 2003**

|                           | <b>Chilean<br/>GAAP</b> | <b>Reclassification</b> | <b>U.S. GAAP<br/>Presentation</b> |
|---------------------------|-------------------------|-------------------------|-----------------------------------|
|                           | <b>ThCh\$</b>           | <b>ThCh\$</b>           | <b>ThCh\$</b>                     |
| Total current assets      | 15,167,731              | 949,757                 | 16,117,488                        |
| Total current liabilities | 25,185,654              | 949,757                 | 24,235,897                        |

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**Year Ended December 31, 2004**

|                             | <b>Chilean<br/>GAAP</b> | <b>Reclassification</b> | <b>U.S. GAAP<br/>Presentation</b> |
|-----------------------------|-------------------------|-------------------------|-----------------------------------|
|                             | <b>ThCh\$</b>           | <b>ThCh\$</b>           | <b>ThCh\$</b>                     |
| Total current liabilities   | 44,305,345              | 22,650,889              | 66,956,234                        |
| Total long-term liabilities | 28,254,037              | (22,650,889)            | 5,603,148                         |

For US GAAP purposes, as of December 31, 2004 long-term obligation has been reclassified to short-term in accordance with EITF 86-30, Classification of obligation when a violation is waived by the creditor .

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

(f) *Condensed balance sheet and income statement in accordance to US GAAP:*

The condensed consolidated balance sheet for the years ended December 31 under US GAAP and classified in accordance with US GAAP is presented as follows:

|   | <b>2003</b>        | <b>2004</b>        |
|---|--------------------|--------------------|
|   | <b>ThCh\$</b>      | <b>ThCh\$</b>      |
| <b>ASSETS</b>                             |                    |                    |
| <b>Current Assets</b>                     |                    |                    |
| Cash and equivalents                      | 7,146,955          | 4,245,184          |
| Receivables                               | 5,579,591          | 3,792,128          |
| Other current assets                      | 3,390,942          | 2,216,252          |
| <b>Total current assets</b>               | <b>16,117,488</b>  | <b>10,253,564</b>  |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>      |                    |                    |
| PP&E                                      | 150,229,916        | 153,700,553        |
| Accumulated depreciation                  | (39,006,752)       | (49,991,897)       |
| <b>Property, plant and equipment, net</b> | <b>111,223,164</b> | <b>103,708,656</b> |
| <b>OTHER ASSETS</b>                       |                    |                    |
| Goodwill                                  | 78,523,106         | 78,523,106         |
| Other long-term assets                    | 18,551,666         | 17,641,457         |
| <b>Total other assets</b>                 | <b>97,074,772</b>  | <b>96,164,563</b>  |
| <b>Total assets</b>                       | <b>224,415,424</b> | <b>210,126,783</b> |
| <b>LIABILITIES</b>                        |                    |                    |
| <b>CURRENT-TERM LIABILITIES</b>           |                    |                    |
| Banks and financial inst.                 | 7,631,787          | 30,297,444         |
| Payables                                  | 11,065,525         | 33,703,746         |
| Other                                     | 8,266,625          | 2,920,409          |
| <b>Total current-term liabilities</b>     | <b>26,963,937</b>  | <b>66,921,599</b>  |
| <b>LONG-TERM LIABILITIES</b>              |                    |                    |
| Banks and financial inst                  | 30,246,442         |                    |
| Other                                     | 18,342,079         | 4,202,444          |
| <b>Total long-term liabilities</b>        | <b>48,588,521</b>  | <b>4,202,444</b>   |
| <b>Minority interest</b>                  | <b>6,268,905</b>   | <b>5,725,280</b>   |
| <b>SHAREHOLDERS EQUITY</b>                |                    |                    |
| Shareholders equity                       | 155,526,366        | 142,594,061        |

|  |                    |                    |
|--|--------------------|--------------------|
| Net loss   | (12,932,305)       | (9,316,601)        |
| <b>Total shareholders equity</b>                 | <b>142,594,061</b> | <b>133,277,460</b> |
| <b>Total Liabilities and shareholders equity</b> | <b>224,415,424</b> | <b>210,126,783</b> |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

The condensed consolidated statements of income for the years ended December 31 under US GAAP and classified in accordance with US GAAP are presented as follows:

|  | <b>2002</b>   | <b>2003</b>   | <b>2004</b>   |
|--|---------------|---------------|---------------|
|  | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> |
| <b>OPERATING INCOME</b>                                  |               |               |               |
| Operating revenues                                       | 47,911,196    | 46,100,072    | 45,547,636    |
| Operating costs  | (46,358,310)  | (41,389,764)  | (40,601,181)  |
| <b>Operating margin</b>                                  | 1,552,886     | 4,710,308     | 4,946,455     |
| Administrative and selling expenses                      | (15,958,113)  | (14,279,993)  | (14,328,858)  |
| <b>Operating loss</b>                                    | (14,405,227)  | (9,569,685)   | (9,382,403)   |
| <b>NON-OPERATING INCOME</b>                              |               |               |               |
| Financial income (expenses)                              | (2,058,538)   | (2,490,613)   | (2,276,273)   |
| Other non-operating income                               | 153,218       |               | 1,039,953     |
| Other non-operating expense                              |               | (1,173,880)   | (73,721)      |
| Goodwill amortization                                    | 62,047        |               |               |
| Price-level restatement and Foreign currency translation | (680,852)     | (1,220,627)   | 135,937       |
| <b>Non-operating loss</b>                                | (2,524,125)   | (4,885,120)   | (1,174,104)   |
| <b>Loss before taxes and minority interest</b>           | (16,929,352)  | (14,454,805)  | (10,556,507)  |
| Tax benefit  | 425,847       | 1,046,913     | 696,280       |
| Minority interest  | 88,679        | 475,587       | 543,626       |
| <b>Net loss for the year</b>                             | (16,414,826)  | (12,932,305)  | (9,316,601)   |

*(g) Estimated fair value of financial instruments and derivative financial instruments:*

The accompanying tables provide disclosure of the estimated fair value of financial instruments owned by the Company. Various limitations are inherent in the presentation, including the following:

The data excludes non-financial assets and liabilities, such as property, plant and equipment, and goodwill.

While the data represents management's best estimates, the data is subjective and involves significant estimates regarding current economic and market conditions and risk characteristics.

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

Cash and cash equivalents approximate fair value because of the short-term maturity of these instruments.



For current liabilities that are contracted at variable interest rates, the book value is considered to be equivalent to their fair value.

For interest-bearing liabilities with an original contractual maturity of greater than one year, the fair values are calculated by discounting contractual cash flows at current market origination rates with similar terms.

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

The following is a detail of the Company's financial instruments Chilean GAAP carrying amount and estimated fair value:

|  | 2003                                  |                         | 2004                                  |                         |
|--|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
|  | Chilean<br>GAAP<br>Carrying<br>Amount | Estimated<br>Fair Value | Chilean<br>GAAP<br>Carrying<br>Amount | Estimated<br>Fair Value |
|  | ThCh\$                                |                         | ThCh\$                                |                         |
| <b>Assets</b>  |                                       |                         |                                       |                         |
| Cash and cash equivalents                                    | 7,146,726                             | 7,146,726               | 4,245,184                             | 4,245,184               |
| Short-term accounts receivable                               | 2,580,504                             | 2,580,504               | 2,022,823                             | 2,022,823               |
| Notes receivable   | 92,652                                | 92,652                  | 114,250                               | 114,250                 |
| Miscellaneous receivables                                    | 2,673,926                             | 2,673,926               | 1,426,134                             | 1,426,134               |
| Notes and accounts receivable<br>from related companies      | 232,509                               | 232,509                 | 228,921                               | 228,921                 |
| <b>Liabilities</b>   |                                       |                         |                                       |                         |
| Short-term bank debt   |                                       |                         | (59,325)                              | (59,325)                |
| Current portion of long-term bank<br>debt                    | (7,631,787)                           | (7,631,787)             | (7,587,230)                           | (7,587,230)             |
| Accounts payable   | 9,258,399                             | 9,258,399               | 7,289,371                             | 7,289,371               |
| Current notes and accounts<br>payable to related companies   | 753,025                               | 753,025                 | 11,893,748                            | 11,893,748              |
| Forward contracts  | (4,292,744)                           | (5,290,969)             | (842,019)                             | (800,290)               |
| Notes payable  | (12,133)                              | (12,133)                | (12,193)                              | (12,193)                |
| Miscellaneous payables                                       | 1,041,968                             | 1,041,968               | 14,508,434                            | 14,508,434              |
| Long-term bank debt  | (30,246,442)                          | (30,246,442)            | (22,650,889)                          | (22,650,889)            |
| Long-term notes payable                                      | (14,761,670)                          | (14,761,670)            |                                       |                         |
| Long-term notes and accounts<br>payable to related companies |                                       |                         | 872,688                               | 872,688                 |

*(h) Cash and cash equivalents:*

Under Chilean GAAP cash and cash equivalents are considered to be all highly liquid investments with a remaining maturity of less than 90 days as of the closing date of the financial statements, whereas, U.S. GAAP considers cash and cash equivalents to be all highly liquid investments with an original maturity date of less than 90 days. The difference between the balance under U.S. GAAP and Chilean GAAP of cash and cash equivalents is not material for the periods presented.

*Supplementary Cash flow information:*

|                                      | <b>2002</b>   | <b>2003</b>   | <b>2004</b>   |
|--------------------------------------|---------------|---------------|---------------|
|                                      | <b>ThCh\$</b> | <b>ThCh\$</b> | <b>ThCh\$</b> |
| Assets acquired under capital leases |               |               | 85,440        |
| Interest paid during the year        | (1,500,630)   | (1,852,560)   | (1,268,197)   |

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**Cordillera Comunicaciones Holding Limitada and Subsidiaries**  
**Notes to the Consolidated Financial Statements (Continued)**

(Translation of financial statements originally issued in Spanish see Note 2)  
 (Restated for general price-level changes and expressed in thousands of constant  
 Chilean pesos as of December 31, 2004 except as stated)

Revenues and expenses recognized from barter transactions for the years ended December 31 2002, 2003 and 2004 is as follows:

|  | 2002    | 2003    | 2004    |
|--|---------|---------|---------|
|  | ThCh\$  | ThCh\$  | ThCh\$  |
| Revenues recognized from barter transactions | 774,333 | 725,574 | 518,338 |
| Expenses recognized from barter transactions | 31,593  | 62,601  | 24,957  |

*(i) Defaults:*

On June 8, 2001, the Company obtained a syndicated loan with Banco Santiago, Banco del Estado de Chile, Banco Crédito Inversiones and CorpBanca, for UF 2,823,800. To guarantee the loans, Metrópolis Intercom S.A. pledged the following assets in favor of the aforementioned banks: Hybrid Fiber optic Coaxial Network ( HFC ), its equipment and other real estate.

The Company's syndicated loan has certain restrictive covenants.

The Company has received bank waivers which releases them from the obligation to meet the financial coverage ratio and permits the Company not to consider liabilities to shareholders in the calculation of the debt to asset ratio.

The amount of the obligation as of December 31, 2004 is ThCh\$20,650,889, and the period of the waiver is 180 days. For US GAAP purposes, the long-term obligation has been reclassified to the short-term in accordance to EITF 86-30, Classification of obligation when a violation is waived by the creditor .

*(j) Recently issued accounting pronouncement:****Amendment of Statement 133 on Derivative Instruments and Hedging Activities***

In May 2004 the FASB issued Statement No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities . This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities . This Statement is effective for contracts entered into or modified after June 30, 2003, except for hedging relationships designated after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively with exceptions. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, paragraphs 7(a) and 23(a) of that Statement, which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The implementation of SFAS No. 149 had no material impact on the results of operations or financial position of the Company.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors

Fox Pan American Sports, LLC and its Subsidiary:

We have audited the accompanying consolidated balance sheet as of December 31, 2004 and the related consolidated statements of operations, changes in members' (deficit) equity and cash flows for the year then ended of Fox Pan American Sports, LLC and its subsidiary (the Company). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fox Pan American Sports, LLC, and its subsidiary as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Miami, Florida

April 16, 2005

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2004 and 2003**

|   | December 31       |                   |
|---|-------------------|-------------------|
|   | 2004              | 2003              |
|   |                   | Unaudited         |
| <b>ASSETS</b>   |                   |                   |
| Current assets:   |                   |                   |
| Cash and cash equivalents   | \$ 6,947,650      | \$ 12,370,241     |
| Accounts receivable, net of allowance of doubtful accounts of \$2,622,128 and \$4,574,337, respectively | 25,418,844        | 22,680,843        |
| Due from affiliates   | 747,187           | 906,469           |
| Broadcast rights, net   | 3,405,589         | 9,837,575         |
| Prepaid expenses and other current assets   | 1,796,695         | 626,730           |
| <br>Total current assets  | <br>38,315,965    | <br>46,421,858    |
| Property and equipment, net   | 631,762           | 393,835           |
| Other assets  | 2,180,686         | 748,268           |
| <br>Total assets  | <br>\$ 41,128,413 | <br>\$ 47,563,961 |
| <b>LIABILITIES AND MEMBERS (DEFICIT) EQUITY</b>   |                   |                   |
| Current liabilities:  |                   |                   |
| Accounts payable  | \$ 5,581,428      | \$ 8,306,630      |
| Accrued expenses  | 5,220,339         | 5,291,422         |
| Broadcast rights payable  | 3,383,745         | 8,180,097         |
| Current portion notes payable to members  | 7,500,000         |                   |
| Due to affiliates   | 2,280,231         | 3,183,068         |
| Income taxes payable  | 600,000           |                   |
| Deferred revenue  | 2,990,444         | 966,669           |
| <br>Total current liabilities   | <br>27,556,187    | <br>25,927,886    |
| Notes payable to members  | 19,700,000        | 22,745,424        |
| Accrued interest to members   | 4,768,169         | 1,684,109         |
| <br>Total liabilities   | <br>52,024,356    | <br>50,357,419    |
| Commitments   |                   |                   |
| Members deficit   | (10,895,943)      | (2,793,458)       |
|   | \$ 41,128,413     | \$ 47,563,961     |

See accompanying notes to consolidated financial statements.



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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years ended December 31, 2004 and 2003, and**  
**period from February 5, 2002 (date of merger) through December 31, 2002**

|   | <b>2004</b>           | <b>2003</b>            | <b>2002</b>            |
|---|-----------------------|------------------------|------------------------|
|   |                       | <b>Unaudited</b>       | <b>Unaudited</b>       |
| Net advertising and subscriber revenue        | \$ 90,804,007         | \$ 80,507,973          | \$ 57,034,958          |
| Sale of broadcast rights                      | 6,772,714             | 6,001,730              | 9,427,462              |
| <b>Total revenue</b>                          | <b>97,576,721</b>     | <b>86,509,703</b>      | <b>66,462,420</b>      |
| Cost of revenue                               | 77,724,516            | 85,118,256             | 93,859,489             |
| <b>Gross margin (loss)</b>                    | <b>19,852,205</b>     | <b>1,391,447</b>       | <b>(27,397,069)</b>    |
| Selling, general, and administrative expenses | 19,306,028            | 19,610,630             | 20,358,515             |
| <b>Operating income (loss)</b>                | <b>546,177</b>        | <b>(18,219,183)</b>    | <b>(47,755,584)</b>    |
| Other income (expense):                       |                       |                        |                        |
| Interest expense                              | (3,084,060)           | (1,684,109)            |                        |
| Other income (expense), net                   | (411,340)             | 1,207,027              | (487,654)              |
| <b>Net loss before income taxes</b>           | <b>(2,949,223)</b>    | <b>(18,696,265)</b>    | <b>(48,243,238)</b>    |
| Income tax expense                            | (5,121,238)           | (4,173,940)            | (2,870,825)            |
| <b>Net loss</b>                               | <b>\$ (8,070,461)</b> | <b>\$ (22,870,205)</b> | <b>\$ (51,114,063)</b> |

See accompanying notes to consolidated financial statements.



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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS (DEFICIT) EQUITY**  
**Years ended December 31, 2004 and 2003, and**  
**period from February 5, 2002 (date of merger) through December 31, 2002**

|   | Members<br>capital<br>contributions | Accumulated<br>other<br>comprehensive<br>income | Accumulated<br>deficit | Total members<br>(deficit) equity |
|---|-------------------------------------|---|------------------------|-----------------------------------|
| Balance at February 5, 2002<br>(date of merger) (unaudited) | \$ 31,776,237                       | \$  | \$                     | \$ 31,776,237                     |
| Capital contributions<br>(unaudited)                        | 33,541,416                          |   |                        | 33,541,416                        |
| Net loss (unaudited)  |                                     |   | (51,114,063)           | (51,114,063)                      |
| Foreign currency translation<br>adjustment (unaudited)      |                                     | 3,908,958                                       |                        | 3,908,958                         |
| Comprehensive loss<br>(unaudited)                           |                                     |   |                        | (47,205,105)                      |
| Balance at December 31, 2002<br>(unaudited)                 | 65,317,653                          | 3,908,958                                       | (51,114,063)           | 18,112,548                        |
| Capital contributions<br>(unaudited)                        | 4,791,461                           |   |                        | 4,791,461                         |
| Net loss (unaudited)  |                                     |   | (22,870,205)           | (22,870,205)                      |
| Foreign currency translation<br>adjustment (unaudited)      |                                     | (2,827,262)                                     |                        | (2,827,262)                       |
| Comprehensive loss<br>(unaudited)                           |                                     |   |                        | (25,697,467)                      |
| Balance at December 31, 2003<br>(unaudited)                 | 70,109,114                          | 1,081,696                                       | (73,984,268)           | (2,793,458)                       |
| Net loss  |                                     |   | (8,070,461)            | (8,070,461)                       |
| Foreign currency translation<br>adjustment                  |                                     | (32,024)  |                        | (32,024)                          |
| Comprehensive loss  |                                     |   |                        | (8,102,485)                       |
| Balance at December 31, 2004                                | \$ 70,109,114                       | \$ 1,049,672                                    | \$ (82,054,729)        | \$ (10,895,943)                   |

See accompanying notes to consolidated financial statements.

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2004 and 2003, and**  
**period from February 5, 2002 (date of merger) through December 31, 2002**

|   | <b>2004</b>    | <b>2003</b>      | <b>2002</b>      |
|---|----------------|------------------|------------------|
|   |                | <b>Unaudited</b> | <b>Unaudited</b> |
| Net loss  | \$ (8,070,461) | \$ (22,870,205)  | \$ (51,114,063)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |                |                  |                  |
| Bad-debt expense  | 1,868,463      | 1,687,504        | 4,790,420        |
| Equity in earnings of investment, net of amortization                       | (1,056,361)    | (533,710)        | 105,967          |
| Depreciation and amortization   | 106,280        | 19,779           | 18,483           |
| Deferred income taxes   |                | 200,940          | (200,940)        |
| Changes in operating assets and liabilities:                                |                |                  |                  |
| Accounts receivable   | (5,208,686)    | (2,648,885)      | (16,435,972)     |
| Prepaid expense and other assets  | (1,352,179)    | (1,057,510)      | 4,326,198        |
| Accounts payable  | 1,374,325      | 3,233,976        | 1,783,825        |
| Accrued expenses  | (1,889,614)    | 3,957,291        | 123,008          |
| Due from/to affiliates  | 287,270        | (243,651)        | 12,120,987       |
| Accrued interest  | 3,084,060      | 1,684,109        |                  |
| Deferred revenue  | 2,023,775      | 959,624          | (245,037)        |
| Broadcast rights  | 1,632,589      | (943,080)        | 1,289,674        |
| Income taxes payable  | 414,123        | 71,233           | 28,987           |
| Net cash used in operating activities                                       | (6,786,416)    | (16,482,585)     | (43,372,463)     |
| Cash flows from investing activities:                                       |                |                  |                  |
| Purchases of property and equipment   | (581,562)      | (127,330)        | (308,970)        |
| Net cash used in investing activities                                       | (581,562)      | (127,330)        | (308,970)        |
| Cash flows from financing activities:                                       |                |                  |                  |
| Members capital contributions   |                | 4,791,461        | 36,957,840       |
| Proceeds from notes payable from affiliates and members                     | 1,954,576      | 15,245,424       |                  |
| Net cash provided by financing activities                                   | 1,954,576      | 20,036,885       | 36,957,840       |
| Net decrease (increase) in cash and cash equivalents                        | (5,413,402)    | 3,426,970        | (6,723,593)      |
| Cash and cash equivalents, beginning of period                              | 12,370,241     | 9,283,174        | 15,495,751       |
| Effect of foreign currency on cash flow                                     | (9,189)        | (339,903)        | 511,016          |
| Cash and cash equivalents, end of period                                    | \$ 6,947,650   | \$ 12,370,241    | \$ 9,283,174     |

Supplemental information:

|                       |    |           |    |           |    |           |
|-----------------------|----|-----------|----|-----------|----|-----------|
| Cash paid for taxes   | \$ | 4,644,046 | \$ | 4,512,817 | \$ | 2,862,867 |
| Non-cash transactions | \$ | 2,500,000 | \$ | 7,500,000 | \$ |           |

See accompanying notes to consolidated financial statements.

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended December 31, 2004 and 2003, and  
period from February 5, 2002 (date of merger) through December 31, 2002**

**(1) Organization and Nature of Business**

***(a) Description of Business***

Fox Pan American Sports, LLC (FPAS) was formed on January 29, 2002 as a limited liability company in the State of Delaware. FPAS was formed to provide spanish language television sports programming service to key markets and sale of broadcast rights within North, Central and South America and the Caribbean through pay television sports networks owned by its subsidiary FSLA Holdings, Inc. (FSLAH) and FSLAH's subsidiaries, Fox Sports Latin America, Ltd. (FSLA), Fox Sports World Espanol, LLC (FSE), Fox Sports Mexico Distribution, LLC (FSMD), Fox Sports Chile Ltda. (FS Chile), Fox Sports Latin America S.A. (FS Argentina) and Fox Pan American Sports Brazil, Ltd.

On February 5, 2002, FPAS entered into an agreement with Fox Sports International SPV, Inc. (FSI SPV), a wholly owned subsidiary of International Sports Programming, LLC, doing business as Fox Sports International (FSI), a division of News Corporation, Pan American Sports Enterprises (PASE) Company, a wholly owned subsidiary of PSE Holdings, LLC, a partnership controlled by Hicks, Muse, Tate, and Furst, Inc. and Liberty Finance, LLC (LFC) a wholly owned subsidiary of Liberty Media Corporation (collectively known as the Contributing Members) whereby FSI SPV contributed 100% of FSLA Holdings, Inc., which included 100% of Fox Sports Latin America, Ltd., 100% of Fox Sports World Espanol, LLC and 100% of Fox Sports Mexico Distribution, LLC, the sports business of its operations in Argentina and Chile, and cash of \$7,500,000; PASE contributed a 50% interest in T&T Sports Marketing Limited (T&T) and cash of \$5,833,328; and LFC contributed cash of \$5,833,438 for certain equity interests in FPAS (the Contribution Agreement).

The above transaction has been deemed to be a roll up transaction with PASE being the acquiring entity and as such accounted for pursuant to the provisions of Statement of Financial Accounting Standard (SFAS) No. 141 *Business Combinations*. Accordingly all contributions by PASE have been recorded on the historical basis and all contributions by FSI and LFC have been recorded at their fair values as of February 5, 2002. See Note 1(f).

***(b) Basis of Financial Statement Presentation***

The accompanying consolidated financial statements include FPAS, its subsidiary FSLAH and its subsidiaries (Company) and have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the accompanying consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and revenue and expenses for the periods presented. Actual results could differ significantly from those estimates.

**(2) Liquidity and Capital Requirements**

As of December 31, 2004, the Company had cash and cash equivalents of \$6.9 million. The Company has had recurring losses since inception and has relied on capital contributions and other funding from its members. Although the Company believes its cash flow from operations and working capital will fund its ongoing operations, it is possible that the Company may need to seek additional funding in the future.

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(3) Summary of Significant Accounting Policies****(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and money market accounts with original maturity terms of less than 90 days.

**(b) Revenue Recognition**

Revenues are derived from commercial advertisements, subscriber fees, and the resale of programming rights. Revenues from commercial advertisements are recognized as the commercials are aired, net of agency commissions. Subscriber fees received from cable systems and operators are recognized in the period that services are provided. Amounts received in advance of the advertisement period are reflected as deferred revenue on the consolidated opening balance sheets. Revenues generated from all other services are recognized as the services are provided. The Company sells the rights to broadcast certain sporting events. Revenue is recognized when the events occur. Revenues from customers are generated in the United States and Latin America (Central and South America). The following table presents revenues from customers by geographic area for the years ended December 31, 2004 and 2003 and the period February 5, 2002 (date of merger) to December 31, 2002:

|                      | 2004                 | 2003                 | 2002                 |
|----------------------|----------------------|----------------------|----------------------|
|                      |                      | Unaudited            | Unaudited            |
| United States        | \$ 28,351,516        | \$ 24,608,432        | \$ 19,734,131        |
| Latin America        | 69,225,205           | 61,901,271           | 46,728,289           |
| <b>Total Revenue</b> | <b>\$ 97,576,721</b> | <b>\$ 86,509,703</b> | <b>\$ 66,462,420</b> |

**(c) Allowance for Doubtful Accounts Receivable**

The Company's allowance for doubtful accounts receivable is maintained for estimated losses resulting from the inability or unwillingness of its customers to make required payments. The Company looks at historical write-offs and composition of accounts receivable when determining the allowance for doubtful accounts.

**(d) Property and Equipment**

Property and equipment reflects contributions made by FSI and as such are stated at their fair value pursuant to the provisions of SFAS 141 (see note 1) as of February 5, 2002 (date of merger). Major additions and improvements are capitalized while maintenance and repairs which do not extend the lives of the assets are expensed as incurred. Gain or loss on the disposition of property, plant and equipment is recognized in operations when realized. The Company depreciates the cost of its property and equipment using the straight-line method over the respective estimated useful lives which range from 3 to 5 years. Amortization of leasehold improvements is provided over the shorter of their useful lives or the remaining term of the lease using the straight line method.

**(e) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of**

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2004 management believes that their assets are not impaired.

**(f) Investments in T&T Sports Marketing Ltd**

Investment in T&T is comprised of a 50% investment in T&T Sports Marketing Ltd (T&T). T&T is responsible for and owns several broadcasting rights for sports programming matches in South America and sells these rights to open cable television channels. Although the Company owns a 50% interest in T&T, it does not have financial or operational control of the entity and accordingly accounts for its investment in T&T under the equity method. The Company initially recorded its investment based on the historical cost basis of the excess of liabilities over assets of T&T (\$3.3 million) and also recorded an intangible asset related to the broadcast rights of T&T of an equal amount, which is being amortized over a five year period. As of December 31, 2004, the Company's investment and the unamortized intangible asset was \$1.5 million and is included in other assets and has purchase commitments of \$183.6 million through 2010 but no other funding commitments.

Condensed financial information for T&T consists of the following as of and for the years ended December 31, 2004 and 2003 and for the period from February 5, 2002 (date of merger) through December 31, 2002:

|                        | <b>2004</b>      | <b>2003</b>      | <b>2002</b>      |
|------------------------|------------------|------------------|------------------|
|                        | <b>Unaudited</b> | <b>Unaudited</b> | <b>Unaudited</b> |
| Current assets         | \$ 3,503,653     | \$ 4,077,109     | \$ 6,633,826     |
| Noncurrent assets      | 20,000           | 480,000          | 20,000           |
| Current liabilities    | 2,247,157        | 6,834,637        | 8,270,904        |
| Noncurrent liabilities |                  | 250,000          | 3,669,174        |
| Stockholders' equity   | 1,276,496        | (2,527,528)      | (5,286,252)      |
| Revenue                | 39,500,871       | 37,742,137       | 37,930,912       |
| Net income             | 3,804,024        | 2,758,724        | 1,478,955        |

**(g) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax asset 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.

No provision for Federal income taxes is made by FPAS since the members are treated as partners for Federal income tax purposes. All Federal income tax consequences are required by such members. Provision for state taxes is made for states in which limited liability companies are liable for such taxes. The Company has certain foreign subsidiaries that are liable for income taxes in their local jurisdiction. Provision for income taxes has been made for jurisdictions in which the Company's subsidiaries are liable for such taxes.

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***(h) Marketing Costs***

The Company incurs various marketing and promotional costs to add and maintain viewership. These costs are charged to expense in the period incurred. Marketing costs for the years ended December 31, 2004 and 2003 and the period ended December 31, 2002, were \$3.9 million, \$2.9 million, and \$2.3 million, respectively.

***(i) Foreign Currency Translation***

The functional currency of the Company's operations in Argentina is the applicable local currency. The functional currency for all other international operations is the U.S. dollar. The translation of the applicable foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average rates of exchange prevailing during the respective period. The unrealized gains and losses resulting from such translation are included as a separate component of members' equity in accumulated other comprehensive income.

***(j) Broadcast Rights***

The Company acquires broadcast rights of sports programming to broadcast on its television network. The costs incurred in acquiring sports programming is capitalized and amortized primarily on a straight-line basis, based on the license period or projected useful life of the programming. Broadcast rights and the related liabilities are recorded at the gross amount of the liabilities when the license period has begun, the cost of the program is determinable, and the program is accepted and available for airing. The Company has single and multi-year commitments to purchase broadcast rights of sports programming. (See note 8.) The Company evaluates the recoverability of broadcast rights costs associated therein against the revenues directly associated with the program material and related expenses. Where an evaluation indicates that a programming contract will result in an ultimate loss, additional amortization is provided to recognize that loss.

***(k) Comprehensive Income***

Comprehensive income consists of foreign currency translation adjustments.

***(l) Concentration of Credit and Other Risks***

The Company has no significant concentration of credit risk with respect to accounts receivable because of the large number of customers. The Company has operations in Argentina which has experienced significant political and economic changes including severe recessionary conditions and political uncertainty. The Company's operations may be negatively impacted as the conditions in Argentina remain unstable.

***(m) Fair Value of Financial Instruments***

The Company's financial instruments consist primarily of cash and cash equivalents, trade accounts and notes receivables, payables, and long-term debt. The carrying values for the Company's financial instruments approximate fair value with the exception at times of long-term debt. As of December 31, 2004, and 2003, the fair value of debt obligations approximated the recorded value.

***(n) Recent Accounting Pronouncements***

In December 2003, the FASB issued a revised Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46R). FIN 46R requires the consolidation of variable interest entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Currently entities are generally consolidated by an

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. The provisions of FIN 46R state that nonpublic entities must apply FIN 46R immediately to all entities created after December 31, 2003, and to all other entities, regardless of the date of creation, no later than the beginning of the first annual reporting period beginning after December 31, 2004.

As the Company is not a public company, thus it is not required to adopt FIN 46R until the fiscal year ended December 31, 2005. The Company owns a 50% interest in T&T, a company that owns and sells sports programming rights. T&T derived \$30.1 million or 77% of its revenue from the Company during the year ended December 31, 2004.

**(4) Property and Equipment**

Property and equipment consist of the following at:

|                               | <b>December 31</b> |                  |
|-------------------------------|--------------------|------------------|
|                               | <b>2004</b>        | <b>2003</b>      |
|                               |                    | <b>Unaudited</b> |
| Furniture and fixtures        | \$ 737,372         | \$ 456,727       |
| Less accumulated depreciation | (105,610)          | (62,892)         |
|                               | \$ 631,762         | \$ 393,835       |

**(5) Related-Party Transactions*****Fox Sports International***

During 2004, 2003 and 2002, the Company has had several service agreements with FSI to provide programming, advertising, affiliate sales, production, technical, corporate and personnel services. The Company recorded expenses related to these services of \$21.3 million, \$34.8 million, and \$37.3 million for 2004, 2003, and 2002, respectively. The ongoing commitments under these agreements are included in note (8).

***Torneos y Competencias S.A.***

During 2004, 2003, and 2002, the Company has had several services agreements with Torneos y Competencias, S. A. (TyC) an Argentine company and an affiliate of one of the Company's members to provide advertising and affiliate sales, production and technical services and corporate services. The Company recorded expenses of \$2.3 million, \$1.7 million and \$1.5 million for 2004, 2003, and 2002, respectively. The ongoing commitments under these agreements are included in note (8).

***T&T Sports Marketing Company Ltd***

The Company has agreements with T&T for the purchase of broadcast rights in relation to sporting events from February 5, 2002 (date of merger) to 60 days subsequent to the last event of the 2010 season. T&T holds the rights for these sporting events in the United States of America, Canada, South America and the Caribbean. The annual license fees incurred to T&T for the sporting events are \$30.6 million, \$29.0 million and \$36.0 million for December 31, 2004, 2003, and 2002, respectively.

In addition, the Company has entered into a month-to-month agreement for the use of T&T's banner rights and pays for those rights directly to the third party vendor.



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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(6) Income Taxes**

The components of income tax expense (benefit) for the years ended December 31, 2004 and 2003 and the period from February 5, 2002 through December 31, 2002 are as follows:

|                                 | 2004                | 2003                | 2002                |
|---------------------------------|---------------------|---------------------|---------------------|
|                                 |                     | Unaudited           | Unaudited           |
| Current foreign                 | \$ 5,121,238        | \$ 3,973,000        | \$ 3,071,765        |
| Deferred foreign                |                     | 200,940             | (200,940)           |
| <b>Total income tax expense</b> | <b>\$ 5,121,238</b> | <b>\$ 4,173,940</b> | <b>\$ 2,870,825</b> |

The tax effects based on jurisdictions in which the Company does business of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2004, and 2003 are as follows:

|   | 2004              | 2003              |
|---|-------------------|-------------------|
|   |                   | Unaudited         |
| <b>Deferred tax assets:</b>   |                   |                   |
| Accounts receivable, principally due to allowance for doubtful accounts | \$ 2,359,784      | \$ 2,157,768      |
| Accrued liabilities   | 1,332,167         | 1,872,673         |
| Other items   | 3,859             | 3,858             |
| Deferred revenues   | 1,153,928         | 373,069           |
| Net operating loss and tax credit carryforwards                         | 17,062,146        | 17,908,661        |
| <b>Total deferred tax assets</b>  | <b>21,911,884</b> | <b>22,316,029</b> |
| Net deferred tax asset before valuation allowance                       | 21,911,884        | 22,316,029        |
| Less valuation allowance  | (21,911,884)      | (22,316,029)      |
| <b>Net deferred tax asset</b>   | <b>\$</b>         | <b>\$</b>         |

Income tax expense on income from continuing operations differs from the amount computed by applying the U.S. Federal income tax rate of 35% for 2004, 2003, and 2002 to income from continuing operations before income tax because of the following:

|                             | 2004           | 2003           | 2002            |
|-----------------------------|----------------|----------------|-----------------|
|                             |                | Unaudited      | Unaudited       |
| Expected income tax benefit | \$ (1,032,228) | \$ (6,543,693) | \$ (16,885,533) |
| State income taxes          | (21,731)       | (305,443)      | (1,345,215)     |
| Meals & entertainment       | 159,270        | 61,011         | 58,450          |
| Devaluation reserve         | 412,300        | (225,400)      | 1,400,000       |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Impact of LLC status                                   | 1,217,946    | 1,184,152    | 856,488      |
| Changes in valuation allowance                         | (404,074)    | 6,359,093    | 15,956,935   |
| Foreign income taxes                                   | 4,521,000    | 3,973,000    | 2,726,000    |
| Differential in tax rates                              | 350,730      | 348,120      | (109,800)    |
| Flow through of income/loss from deemed foreign income | (681,975)    | (676,900)    | 213,500      |
| Miscellaneous other                                    | 600,000      |              |              |
|  | \$ 5,121,238 | \$ 4,173,940 | \$ 2,870,825 |

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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In assessing the realizability of deferred tax assets, management 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 the deferred tax assets is dependent on the generation of future taxable income during the periods in which temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon these factors, management has recorded a valuation allowance of \$21,911,884 and \$22,316,029 for December 31, 2004 and 2003, respectively, to bring the deferred tax assets to a realizable amount.

At December 31, 2004, and 2003, the Company has net operating loss and tax credit carryforwards for federal and foreign income tax purposes, which are available to offset future taxable income, if any, through 2024 and 2023, respectively.

**(6) Notes Payable to Members**

Notes payable to members consists of the following at December 31, 2004:

|  |    |            |
|--|----|------------|
| Senior promissory notes with due dates beginning on April 28, 2005, bearing interest at an annual rate of 8% | \$ | 10,000,000 |
| Subordinated Convertible Credit Agreement due March 1, 2009, bearing interest at an annual rate of 12%       |    | 17,200,000 |
|  | \$ | 27,200,000 |
| Current portion of notes payable to members  |    | 7,500,000  |
|  | \$ | 19,700,000 |

On April 28, 2003, the members entered into a Subordinated Convertible Credit Agreement with the Company whereby the members agreed to lend the Company an aggregate amount of \$17.2 million in the form of notes payable of which \$15.2 million was funded on April 28, 2003 and \$2 million on March 1, 2004. These notes bear interest at a rate of 12% per annum and all mature on March 1, 2009 and are convertible in whole or in part at the option of each member at a conversion price of \$0.3179 per LLC unit. No lender may convert its loans unless all members agree to convert their respective loans. The loans will automatically convert upon a change in control. The Company has accrued interest of approximately \$3.8 million and \$1.4 million as of December 31, 2004 and 2003, respectively.

On April 28, 2003, one of the members entered into a Senior Promissory Note agreement whereby the member agreed to lend the Company an aggregate amount of \$10.0 million in certain increments. Each loan will mature two (2) years from advance date and will bear interest at the rate of 8% per annum. The Company has accrued interest of approximately \$1.0 million and \$0.3 million as for December 31, 2004 and 2003, respectively.

The following is a schedule of the future debt payments as of December 31, 2004:

|      |    |            |
|------|----|------------|
| 2005 | \$ | 7,500,000  |
| 2006 |    | 2,500,000  |
| 2007 |    |            |
| 2008 |    |            |
| 2009 |    | 17,200,000 |
|      | \$ | 27,200,000 |



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**FOX PAN AMERICAN SPORTS, LLC AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(7) Members Equity**

The Company has one class of Members Equity. Profits and losses are shared by all members based on their respective percentage of ownership interest. No member shall be liable for any debts of the Company or be required to contribute any additional capital related to deficits incurred. The members ownership percentages are as follows:

| Member                               | Percentage ownership |
|--------------------------------------|----------------------|
| Pan American Sports Enterprises, Co. | 52%                  |
| FSI SPV, Inc.                        | 38                   |
| Liberty Finance, LLC                 | 10                   |
|                                      | 100%                 |

The ownership percentages above are not reflective of the members equity balances as stated on the accompanying consolidated balance sheets.

**(8) Commitments**

The Company has commitments under several agreements for varying lengths of time until 2010 to pay for certain sports related broadcasting and programming rights and service agreements. The following is a schedule of future minimum commitments for broadcast rights and programming and service agreements as of December 31, 2004:

|            |                |
|------------|----------------|
| 2005       | \$ 55,078,437  |
| 2006       | 53,232,500     |
| 2007       | 40,369,324     |
| 2008       | 39,002,000     |
| 2009       | 39,002,000     |
| Thereafter | 39,002,000     |
|            | \$ 265,686,261 |

**(9) Event Subsequent to Date of Report of Independent Registered Public Accounting Firm (Unaudited)**

On April 28, 2005, the Company purchased an additional 25% of the common stock of T&T for cash of \$2,060,000 and a promissory note having an original principal balance of \$7,940,000. The note bears interest at an annual rate of three percent above the one-year London Interbank Offered Rate and matures on December 31, 2006.

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

- 4.9 financial institutions listed therein as Additional Facility G Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.39 to the UGC 2004 10-K)  
Additional Facility Accession Agreement, dated March 7, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility H Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.40 to the UGC 2004 10-K)
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| <b>Exhibit<br/>No.</b> | <b>Description</b>   |
|------------------------|--|
| 4.10                   | Additional Facility Accession Agreement, dated March 9, 2005, among UPC Broadband, as Borrower, TD Bank Europe Limited, as Facility Agent and Security Agent, and the banks and financial institutions listed therein as Additional Facility I Lenders, under the 2004 Credit Agreement (incorporated by reference to Exhibit 10.41 to the UGC 2004 10-K)  |
| 4.11                   | Amendment and Restatement Agreement, dated March 7, 2005, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, TD Bank Europe Limited and Toronto Dominion (Texas), Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent, including as Schedule 3 thereto the Restated Credit Agreement, 3,500,000,000 and US\$347,500,000 and 95,000,000 Senior Secured Credit Facility, originally dated October 26, 2000, among UPC Broadband and UPC Financing, as Borrowers, the guarantors listed therein, the Lead Arrangers listed therein, the banks and financial institutions listed therein as Original Lenders, TD Bank Europe Limited and Toronto-Dominion (Texas) Inc., as Facility Agents, and TD Bank Europe Limited, as Security Agent (incorporated by reference to Exhibit 10.33 to the UGC 2004 10-K) |
| 4.12                   | The Registrant undertakes to furnish to the Securities and Exchange Commission, upon request, a copy of all instruments with respect to long-term debt not filed herewith  |
| 10                     | Material Contracts:  |
| 10.1                   | Reorganization Agreement, dated as of May 20, 2004, among Liberty Media Corporation ( Liberty ), the Registrant and the other parties named therein (incorporated by reference to Exhibit 2.1 to the Form 10 Amendment)  |
| 10.2                   | Form of Facilities and Services Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.3 to the Form 10 Amendment)  |
| 10.3                   | Agreement for Aircraft Joint Ownership and Management, dated as of May 21, 2004, between Liberty and the Registrant (incorporated by reference to Exhibit 10.4 to the Form 10 Amendment)   |
| 10.4                   | Form of Tax Sharing Agreement between Liberty and the Registrant (incorporated by reference to Exhibit 10.5 to the Form 10 Amendment)  |
| 10.5                   | Form of Credit Facility between Liberty and the Registrant (terminated in accordance with its terms) (incorporated by reference to Exhibit 10.6 to the Form 10 Amendment)  |
| 10.6                   | Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005)**  |
| 10.7                   | Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005)**  |
| 10.8                   | Liberty Media International, Inc. 2004 Incentive Plan Non-Qualified Stock Option Agreement, dated as of June 7, 2004, between John C. Malone and the Registrant (incorporated by reference to Exhibit 7(A) to Mr. Malone s Schedule 13D/ A (Amendment No. 1) with respect to the Registrant s common stock, dated July 14, 2004 (File No. 005-79904))  |
| 10.9                   | Form of Liberty Media International, Inc. 2004 Incentive Plan (As Amended and Restated Effective March 9, 2005) Non-Qualified Stock Option Agreement**   |
| 10.10                  | Form of Liberty Media International, Inc. 2004 Non-Employee Director Incentive Plan (As Amended and Restated Effective April 1, 2005) Non-Qualified Stock Option Agreement**   |
| 10.11                  | Liberty Media International, Inc. Transitional Stock Adjustment Plan (incorporated by reference to Exhibit 4.5 to the Registrant s Registration Statement on Form S-8, dated June 23, 2004 (File No. 333-116790))  |
| 10.12                  | Description of Director Compensation Policy*   |



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



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| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 23.3                   | Consent of KPMG AZSA & Co.**                                      |
| 23.4                   | Consent of Finsterbusch Pickenhayn Sibille**                      |
| 23.5                   | Consent of KPMG LLP**   |
| 23.6                   | Consent of Ernst & Young LTDA.**                                  |
| 23.7                   | Information regarding absence of consent of Arthur Andersen LLP** |
| 23.8                   | Consent of KPMG LLP***  |
| 31                     | Rule 13a-14(a)/15d-14(a) Certification:                           |
| 31.1                   | Certification of President and Chief Executive Officer***         |
| 31.2                   | Certification of Senior Vice President and Treasurer***           |
| 31.3                   | Certification of Senior Vice President and Controller***          |
| 32                     | Section 1350 Certification***                                     |

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

\*\* Filed with the Registrant s Form 10-K/ A, dated April 28, 2005

\*\*\* Filed herewith