Liberty Media Corporation
Annual Report
April 2004

CONTENTS

Certain statements in this document may constitute ''forward-looking statements'' within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Liberty Media Corporation and Subsidiaries or industry results, to alter materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include among others: the risks and factors described in the publicly filed documents of Liberty Media including the most recently filed Form 10-K of Liberty Media general economic and business conditions and industry trends including in the advertising and retail markets, the continued strength of the industries in which we operate: uncertainties inherent in proposed business strategies and development plans, rapid technological changes, future financial performance, including availability, terms and deployment of capital: availability of qualified personnel, changes in, or the failure or the inability to comply with, government regulation, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings, outcomes of litigation, changes in the nature of any strategic relationships with partners and joint ventures, competitor responses to Liberty Media's products and services, and the overall market acceptance of such products and services, including acceptance of the pricing of such products and services. These forward-looking statements speak only as of the date of this document. Liberty Media expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in Liberty Media's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Selected financial information included in this document with respect to certain of the equity affiliates of Liberty Media was obtained directly from those affiliates. Liberty Media does not control the decision making processes or business management practices of its equity affiliates. Accordingly, we are reliant on the management of those affiliates and their independent accountants to provide us with accurate financial information prepared in accordance with generally accepted accounting principles that we use in the application of the equity method. As a result, we make no representations as to whether such information presented on a stand alone basis has been prepared in accordance with GAAP. We are not aware, however, of any errors in or possible misstatements of the financial information provided to us by our equity affiliates that would have a material effect on our consolidated financial statements. Further, Liberty Media could not, among other things, cause any non-controlled affiliate to distribute to Liberty Media its proportionate share of the revenue or operating cash flow of such affiliate.

To Our Fellow Shareholders

Much has changed at Liberty Media since our report to shareholders in 2003. In the past year, we have completed a number of important transactions, revised our internal organization and announced the spin-off of one of our business units. In addition to these activities, we delivered strong operating results, with substantially all of our businesses performing at or above our expectations.

In general, we are quite pleased with the progress we made in 2003, and with our Company's position as we move into 2004. Despite this, we do have one key disappointment — namely, the continuing gap between the underlying value of Liberty Media and the market value of our stock. As stewards for the shareholders, we have two responsibilities: to maximize the equity value of the Company over a reasonable horizon and within acceptable risk parameters, and to ensure that the resulting value is reflected in the price of the stock. We have been pretty successful in the first category and less so in the second. We have taken a number of steps toward improving this part of our performance, and it remains one of our principal objectives for 2004.

Transforming Transactions

At the beginning of 2003, we determined that Liberty Media's complex structure may have been difficult for many investors to follow. We held a number of passive ownership positions, resulting from transactions in which we sold interests in operating companies to larger, consolidating companies in exchange for the stock of the buyer. These transactions generated significant value for Liberty Media. However, the aggregate result was that a large percentage of our value was in the form of stock positions that, though liquid, were not large enough to permit us to be active participants in management. We were also exposed to fluctuations in the equity markets. While we did preserve a great deal of value for our shareholders by very actively protecting our positions against downside market risk, we also made the Company more complex and difficult to follow.

Last year, we embarked on a strategy to change this by transforming Liberty Media from a relatively passive investor in a broad range of media and telecommunications businesses, to an active owner and manager of businesses in which we are the controlling, or at least, the largest shareholder. Having more direct influence over our businesses increases our ability to drive their direction and long-term strategy, and to instill a higher level of cooperation among our businesses where there are inherent synergies and value-creating opportunities.

QVC, Inc.

QVC is the largest and most profitable television shopping business in the world. It reaches a total of 125 million homes in the U.S., Germany, Japan and the U.K. We had owned 42 percent of QVC since 1995, when we and Comcast Corporation acquired the company in a leveraged buyout. By last year, after eight years of superb performance, QVC had paid off all of the debt that was incurred in the original acquisition and was accumulating significant amounts of cash. Consistent with our desire to increase our holdings of active ownership stakes, we concluded we would rather own a controlling position in QVC or sell our minority interest and reinvest the proceeds. After negotiating with Comcast for several months, we ultimately agreed to acquire their interest in QVC in exchange for 218 million shares of our Series A common stock and $5.35 billion of three-year debt. We have subsequently repaid approximately $1.7 billion of that debt.

QVC is important to us for several reasons, both strategic and financial. Technological change is increasing the availability of on-demand and interactive programming for consumers. This change in television viewing habits threatens the effectiveness of traditional advertising. One way for sellers of consumer goods and services to adapt to the change is to put more emphasis on direct selling of their products, over the television and the Internet. Given QVC's vast experience in direct product sales, as well as its tremendous scale, we believe that the company is well positioned to participate in this very important long-term change in the television business around the world.

From a financial perspective, in 2003 QVC generated more than $1 billion of operating cash flow[1] (OCF), making it one of the largest and most profitable television networks in the world. Owning QVC gives Liberty Media, for the first time, a substantial amount of recurring free cash flow that can be used for debt service, acquisition activity and share repurchases. While we incurred significant debt to finance the acquisition, we expect the business itself will generate enough cash to repay substantially all of the remaining balance over the next three years.

UnitedGlobalCom, Inc.

UnitedGlobalCom (UGC) is one of the largest providers of cable television and broadband services in the world. Its operations are concentrated in Western and Eastern Europe and Latin America. We acquired our original interest in UGC in 1999 and since that time, we have acquired shares in a number of transactions increasing our ownership to 52 percent at the end of 2003. Although our shares represented approximately 90 percent of the voting power in UGC, we had an agreement with the founders that gave them the right to vote our shares. In 2003, UGC successfully completed its financial restructuring and acquired all of the minority interests of its European subsidiary. As a result of this acquisition and the exercise of our pre-emptive rights, our stake in UGC is now 54 percent of the equity and 92 percent of the voting power. With the completion of these very important corporate events we concluded it was the right time for us to consolidate control

[1] Operating cash flow (OCF), as defined by Liberty Media, represents revenue less cost of sales, operating expenses and selling, general and administrative expenses (excluding stock compensation). We use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally accepted accounting principles (GAAP). Accordingly, OCF should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See footnote 18 to the accompanying consolidated financial statements for a reconciliation of OCF to Earnings Before Income Taxes and Minority Interest.

of UGC and, in early 2004, we acquired the remaining control shares of UGC's founding shareholders. In February of this year UGC conducted a very successful rights offering raising $1 billion and, in April, UGC issued €500 million of convertible bonds. These events further solidified its balance sheet and provide flexibility for future acquisitions and growth opportunities.

Jupiter Telecommunications Co., Ltd.

Jupiter Telecommunications (J-COM) is the largest cable television company in Japan. In 2003, we increased our ownership in J-COM from 36 percent to 45 percent by acquiring a portion of the interest held by our partner, Sumitomo Corporation, and by converting to equity a portion of our shareholder loans to J-COM. As a result, we are the largest single shareholder in J-COM. We are contemplating an IPO of J-COM within the next twelve months in order to provide access to public equity markets. We expect this access would facilitate accelerated internal growth of J-COM as well as future acquisitions.

Public Investments

Over the course of the past year, we took advantage of opportunities to increase our positions in two of our strategic public assets, InterActiveCorp (IAC) and News Corporation (News).

In the case of IAC, we exercised pre-emptive rights to maintain our ownership position at 19 percent. During the summer of 2003, we exercised pre-emptive rights on a total of 48.7 million IAC shares for a total cost of approximately $1.2 billion (a weighted average cost of $24 per share). At April 14, 2004, the paper gain related to these shares was approximately $425 million.

In a series of transactions over a 13-month period, we effectively converted 21 million of our News non-voting shares, plus $693 million of cash, into 48 million voting shares in News. We did this by using the proceeds from the sale of the non-voting shares, as well as the proceeds from unwinding in the money derivative instruments, to acquire the voting securities. We also entered into a derivative transaction to reduce our downside risk on 38 million of the newly acquired voting securities. As a result, we are now the largest single shareholder in News with a 17 percent interest, and we own the second largest voting position, after the Murdoch family, with just over 9 percent of the voting power. We continue to be strong believers in the future growth prospects of News. In addition, the shares that we own could some day be used in possible transactions between News and us. For these reasons, we believe the additional voting shares add significant value to our existing interest in News.

Our Operating Groups

As we increased our ownership stakes in these businesses and, in some cases, began to consolidate the operating results in our financial statements, we also realigned our management team and internal reporting processes. Our primary goal in these efforts was to give our management team greater accountability along with the level of empowerment required to propel the long-term success of each Group. In addition, we believe that our new structure is a simpler one that makes our Company more transparent and easier for investors to understand.

Our revised corporate structure encompasses four main Operating Groups — Interactive, Networks, International and Tech / Ventures — as well as a collection of non-strategic public and private assets that comprise a Corporate Group. Each of our Operating Groups has a dedicated senior management team and a clearly articulated growth strategy. In addition, all of our Operating Groups share the following characteristics:

- They have at least one large anchoring business in which Liberty Media is either the control shareholder or the largest single shareholder.
- They encompass businesses that are leaders in their particular industries.
- They have high growth rates.
- They have free cash flow or a path to near-term free cash flow.
- They are run by entrepreneurial management teams.

We believe that our new structure will enable us to drive growth opportunities at each of our businesses in the coming years. Following is a more detailed discussion of each of our Operating Groups.

Interactive Group

Our Interactive Group is anchored by QVC and also includes our interest in IAC, as well as Ascent Media, On Command and Open TV, among others. Our interactive businesses represent leading companies in the areas of television and Internet-based commerce, including the dominant home shopping network in the world and one of the worldwide leaders in transactional commerce over the Internet. On a combined basis,[2] excluding IAC, the Interactive Group had revenue growth of 10 percent and OCF growth of 27 percent in 2003. Within the Group, QVC's revenue rose to $4.9 billion and, for the first time, OCF eclipsed $1 billion. After a slow start in 2003, QVC turned in revenue and OCF growth of 12 percent and 18 percent, respectively, for the year. QVC's international operations continue to be a primary source of OCF growth with $125 million of OCF in 2003 versus $31 million in the prior year. All three of QVC's international businesses are reporting positive OCF, with Japan contributing the highest level of OCF after only three years of operations. QVC's domestic operations reported revenue growth of 4 percent and OCF growth of 7 percent. IAC continued its very rapid growth with $6.3 billion of net revenue, a 38 percent increase over 2002, and $400 million of operating income, more than doubling the 2002 level.

The Interactive Group is principally focused on global expansion in the areas of commerce, gaming, interactive and targeted advertising, and other transaction-based services. These are all areas where the Interactive Group has expertise and where we believe significant growth opportunities exist in an increasingly interactive environment, whether over the television or the Internet. We plan to use a combination of organic growth

[2] Combined results for the Operating Groups are based on 100 percent of the revenue and operating cash flow (as defined) for each of the consolidated subsidiaries and equity method investments included in the respective groups. Accordingly, this excludes the results of IAC and of News Corporation. Please see footnote 18 to the accompanying consolidated financial statements for complete tables and additional information.

and acquisition activity to drive growth across the Group. We also plan to drive synergies within the Group and with the businesses in our other Groups.

Networks Group

Starz Encore Group (SEG) and Discovery Communications are the principal businesses in our Networks Group. The Group also includes our holdings in News, as well as our interests in Court TV, GSN (formerly the Game Show Network), and DMX Music. In SEG, we have a leading provider of premium movie services to the multi-channel video suppliers in the U.S., and in Discovery we have the global leader in non-fiction documentary programming networks. SEG and Discovery each own a number of integrated networks from which to strengthen and extend their leadership positions in their markets. In 2003, the Networks Group, excluding News, had combined revenue growth of 10 percent and combined OCF growth of 26 percent. News reported revenue growth of 19 percent and operating income growth of 20 percent for the twelve months ended December 31, 2003.

SEG finished 2003 with revenue of $906 million and OCF of $368 million, both down slightly from 2002 levels. The decline in both revenue and OCF was due, in large part, to a contract dispute in which our largest distributor de-emphasized SEG's services with its customers. In September 2003, this dispute was settled when SEG entered into a new long-term affiliation agreement. This agreement established significant incentives for the distributor to broadly deploy all of SEG's services throughout its customer base. While we are encouraged by early results from the new agreement, we acknowledge that revenue growth will not keep pace with expected programming cost increases in 2004 and 2005. Thus, we expect reduced OCF in those years.

Discovery had another outstanding year, generating a revenue increase of 16 percent to almost $2 billion and a 34 percent increase in OCF to just over $500 million. Discovery now reaches more than 1 billion cumulative subscribers worldwide. The growth at Discovery continues to be driven by international expansion and growth in advertising revenue. Discovery's international networks now reach more than 310 million subscribers, a 30 percent increase over the prior year, and advertising revenue for all of Discovery increased by 23 percent for the year. In the coming years, we expect Discovery to further strengthen its position as the global leader in non-fiction documentary television programming.

International Group

Our International Group includes our broadband distribution and content companies operating outside the U.S., principally in Europe, Japan and Latin America. UGC and our Japanese businesses, J-COM and Jupiter Programming (JPC), are the largest components of the Group.

UGC had a very busy year. While completing the previously mentioned restructuring of its European subsidiary, merger and rights offering, the management team was very successful in the operation of the business. Revenue increased by 25 percent, and OCF increased by 113 percent to $629 million. In addition, capital expenditures were $333 million in 2003, compared with $335 million in 2002 and $996 million in 2001.

J-COM and JPC continued to turn in very strong growth in revenue and OCF. J-COM finished 2003 with 2.7 million revenue generating units (RGUs) and almost 1.8 million homes receiving service. This equates to 1.55 services per home, an 8 percent increase over 2002. Higher subscriber levels and increasing scale helped drive revenue growth of 32 percent for the year and OCF growth of more than 100 percent to $429 million. J-COM was also net income positive for the first time in 2003. J-COM's expanding subscriber base, along with increased carriage by other distributors, contributed to JPC's growth in 2003. In addition, continued growth at JPC's largest network, Shop Channel, and improved advertising sales at the other networks resulted in JPC revenue growth of 50 percent and OCF growth of 69 percent in 2003.

In 2003, the International Group turned in combined revenue growth of 26 percent and combined OCF growth of 89 percent. Going forward, the International Group will continue to pursue the organic growth opportunities that stem from the execution of its ''triple-play'' consumer offering: video, voice and data. The Group will also broaden the scope of its business by pursuing acquisition opportunities in markets where it can take advantage of its existing management and operational scale.

Another important component of the International Group's strategy is to own and develop programming content in those markets where it owns distribution systems. We already have sizable programming operations in Japan and Latin America, and we are exploring opportunities to take advantage of UGC's significant presence in Europe to launch new and exciting programming alternatives for our European customers.

Tech / Ventures Group

We recently created a fourth Operating Group to focus on our interests in several communications and technology companies. The Tech / Ventures Group consists primarily of True Position and our non-controlling interests in Net2Phone, WildBlue, Liberty Associated Partners (including its interest in Current Communications) and IDT Corporation. True Position is a location based service provider to the wireless industry and is currently deploying its technology in the U.S. under exclusive contracts with Cingular and T-Mobile, covering both of these carriers' nationwide networks. This technology permits emergency and emerging location based service providers to determine the location of an individual mobile telephone caller. Net2Phone is one of the leading providers of voice over Internet protocol (VOIP) services using both packet cable and session initiation protocol (SIP) technologies. Net2Phone has contracted with or is in discussions with a number of cable television operators, both domestically and internationally, about enabling VOIP products and services on their networks, and they have an existing arrangement with our cable operations in Puerto Rico. WildBlue, where our partners include Intelsat, Ltd. and the National Rural Telephone Co-op (NRTC), is deploying a high-speed Internet access service over Ka-band satellite. WildBlue's first satellite is scheduled for launch during the summer of 2004 with commercial service planned for early 2005. Current Communications is deploying its technology for high-speed Internet access using existing power lines, initially in Cincinnati in a joint venture with Cinergy. We are aggressively evaluating synergies and joint business opportunities among True Position, Net2Phone, WildBlue and Current. Finally, IDT, in addition to being our partner in Net2Phone, is a leading provider of wholesale and retail telecommunications services over their own nationwide network. IDT's common stock appreciated more than 50 percent in 2003. All of these businesses are focused on services that take advantage of the technological, business and environmental changes occurring across the communications market.

Corporate Group

Our Corporate Group holds our non-strategic and financial assets. These consist primarily of our holdings in Sprint, Motorola, Time Warner and Viacom, together with associated financial instruments designed to protect us against declines in the market price of the stocks. For the most part, these instruments were entered into when the stock prices were much higher than today, making the value of our combined positions substantially higher than the current market value of the securities. Certain of the shares we hold are associated with exchangeable debt securities that we have issued in recent years. These long-term debt instruments carry very low interest rates and are exchangeable by the holder into the underlying shares at a fixed price.

For the most part, we view these assets as future liquidity that we will draw upon to repay our debt as it comes due. We have approximately $5.6 billion of debt maturing between now and the end of 2013. This is less than the $6.4 billion of minimum proceeds we are entitled to receive from the sale of hedged securities during the same period. The remaining $6.2 billion in principal amount of our debt matures after 2022. Of this amount, $4.6 billion is in the form of the exchangeable securities described above. Assuming the price of the underlying shares reaches the exchange price before maturity, we would be able to use those shares to settle the debt obligation. Thus, we have only $1.6 billion of debt, maturing in 2029 and 2030, for which we have not identified a specific means of repayment.

In November 2003, we announced our intention to repay $4.5 billion of debt by the end of 2005. We accomplished $2.5 billion of that reduction in 2003, in part with the $1.6 billion in proceeds from the sale of our shares in Corus, Vivendi, Cendant and Arris. These positions represented three relatively large non-strategic public positions and, therefore, were not critical to the future growth of the Company.

In order to highlight the Operating Groups and the strong underlying growth rates at each of them, we have expanded our financial disclosure in our annual report on Form 10-K. We will add financial disclosure related to the newly created Tech/Ventures Group in subsequent filings.

Liberty Media International

In March 2004, we decided to distribute the assets of the International Group to our shareholders, creating a new company that will be called Liberty Media International (LMI). The objective of the spin-off is to give investors the opportunity to benefit in a more direct manner from the growth opportunities we see in the LMI businesses. Creating a separate equity security will give existing Liberty Media shareholders and new investors the ability to concentrate their investment in either LMI, the remaining Liberty Media businesses, or both. We expect that this will increase the trading value of both securities, thereby reducing the discount in the current Liberty Media stock and creating better currencies for both entities to use in pursuit of acquisition activity. In addition, by their nature the LMI businesses can support higher levels of debt, which should generate higher equity returns. Separating LMI from Liberty Media will allow LMI to act outside of Liberty Media's bond ratings in optimizing its own capital structure. Shares in the new LMI will be distributed to shareholders in a tax-free transaction that we expect to complete in June of 2004.

With more than 13.5 million RGUs, LMI will be the largest cable television company outside the U.S. and its programming companies will be among the largest providers of multi-channel programming in Japan and Latin America. Many of the LMI markets are at an early stage of development and we believe there are significant opportunities for internal growth. In addition, with its substantial scale in many countries and its very strong capital structure, LMI will be in a good position to expand the scope of its operations through acquisitions. This combination of factors will allow LMI to be a leader in the creation and deployment of new technology and content services.

The Future

As always, our objective as management and shareholders of Liberty Media is to maximize the value of our company. We do that through three primary means: internal growth, acquisitions and capital structure management. We were very active and successful in all three areas in 2003 and the first quarter of 2004.

We are aware that the progress we have made in the past year has not been reflected in the price of our stock, and we are taking steps to address that disparity. We continue our movement out of passive investments and into operating businesses that complement and extend the strengths of our existing Operating Groups. We are working hard to simplify our structure and improve our communications with investors. Finally, we are taking structural steps, such as the creation of LMI, and we are reviewing others, all with the objective of obtaining fuller recognition of the value of our Company.

As we look to the remainder of this year and beyond, we are confident in our ability to build on the successes of last year. We own businesses that are global leaders in their markets. We see continuing opportunities for them to expand and improve their current businesses, and to invest in or acquire new ones. We also own a number of smaller businesses that have the ability to add significantly to our value in the years ahead. We have a very strong capital position and ample financial resources. We have a highly motivated and dedicated group of employees, including several new people who have joined us to facilitate our broader operating responsibilities. In short, we look forward with optimism and confidence to the opportunities ahead of us.

Thank you for your continued support of Liberty Media Corporation.

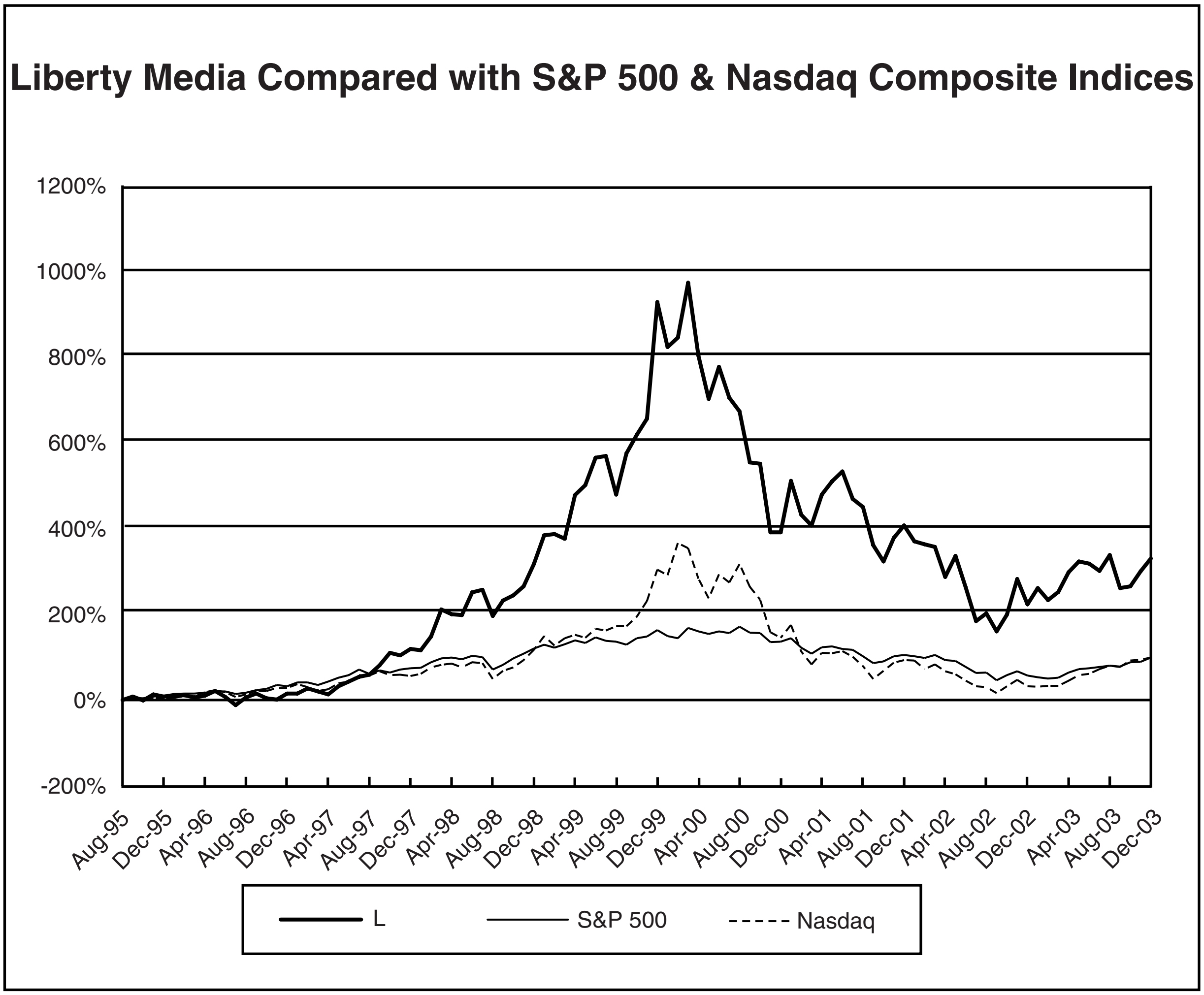
Very Truly Yours,

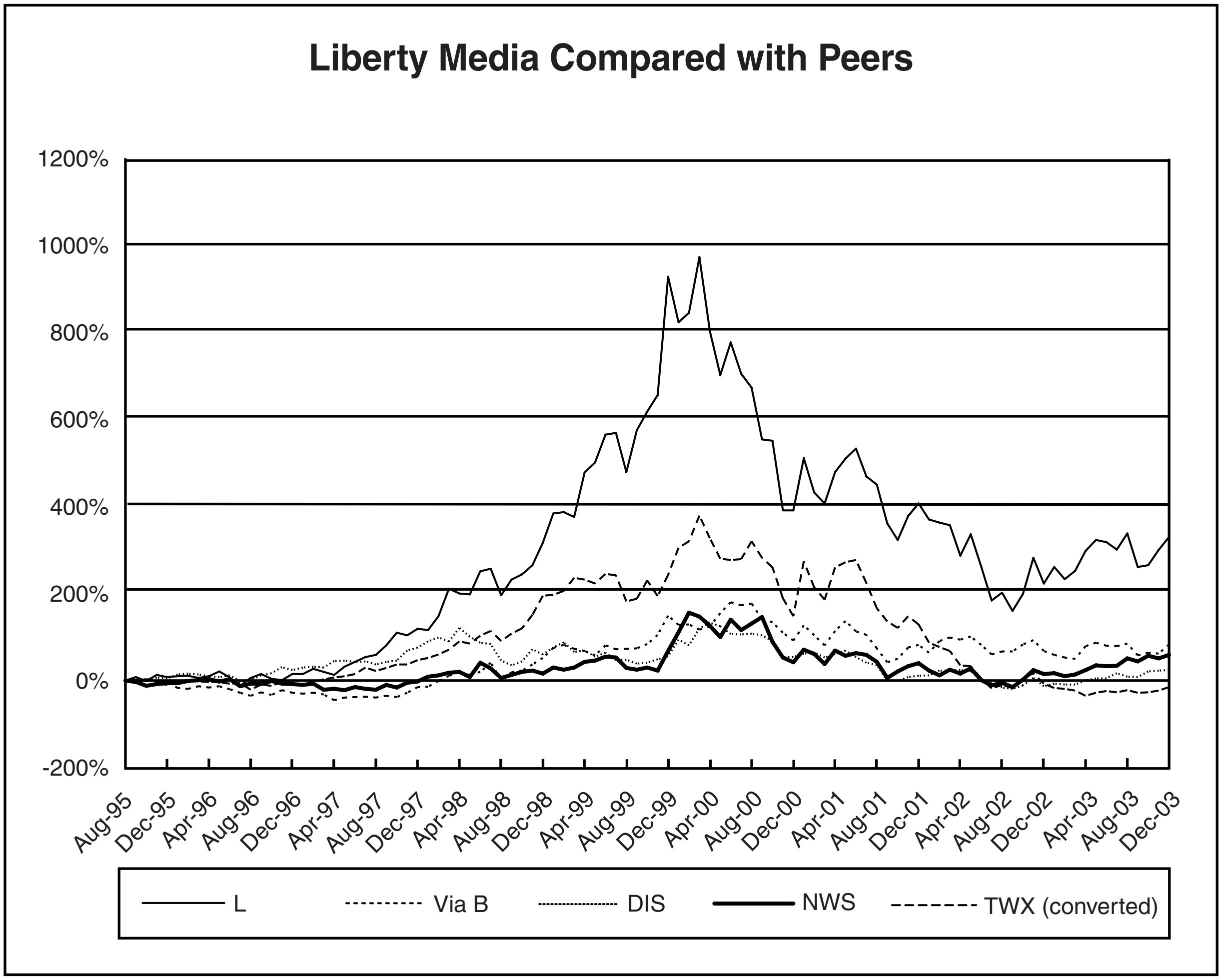
Robert R. Bennett
President and Chief Executive Officer

Dr. John C. Malone
Chairman of the Board

STOCK PERFORMANCE

The following tables illustrate the performance of the Liberty Media Corporation Series A Common Stock since it was initially issued by TCI in August of 1995 in comparison to its peers, and in comparison to the S&P 500 and Nasdaq indices.




Liberty Media Compared with Peers
1200%
1000%
800%
600%
400%
200%
0%
-200%
Aug-95
Dec-95
Apr-96
Aug-96
Dec-96
Apr-97
Aug-97
Dec-97
Apr-98
Aug-98
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TWX (converted)

COMPANY PROFILE

Liberty Media holds interests in a broad range of domestic and international video programming, broadband distribution, interactive technology services and communications businesses. A complete listing of Liberty Media's domestic and international programming networks and businesses is included in the table below.

The following table sets forth Liberty Media's assets that are held directly and indirectly through partnerships, joint ventures, common stock investments and instruments convertible into common stock. Ownership percentages in the table are approximate and, where applicable, assume conversion to common stock by Liberty Media and, to the extent known by Liberty Media, other holders. In some cases, Liberty Media's interest may be subject to buy / sell procedures, repurchase rights or, under certain circumstances, dilution.

ENTITY	CUMULATIVE SUBSCRIPTION UNITS[1] AT 12/31/03 (000's)	ATTRIBUTED OWNERSHIP AT 12/31/03
NETWORKS GROUP		
Court TV	79,000	50%
Discovery Communications, Inc.	1,065,000	50%
DMX MUSIC, Inc.	5,035	56%
E! Entertainment Television	113,141	10%
GSN (f.k.a. Game Show Network)	53,615	50%
Hallmark Entertainment Investments Co.		18%[2]
International Channel	11,770	90%
MacNeil / Lehrer Productions		67%
The News Corporation Limited (NYSE: NWS, NWS.A; ASX: NCPDP)		17%
Starz Encore Group LLC	150,969	100%

ENTITY	TOTAL RGUs[3] 12/31/03 (000's)	ATTRIBUTED OWNERSHIP AT 12/31/03
INTERNATIONAL GROUP		
Cablevisión S.A. (Argentina)	1,307	39%
Chorus Communications Limited (Ireland)	205	50%[4]
Jupiter Telecommunications Co., Ltd.[5] (Japan)	2,715	45%
Liberty Cablevision of Puerto Rico, Inc.	138	100%
Metrópolis-Intercom, S.A. (Chile)	268	50%
Sky Latin America		9%
Telewest Communications plc (UK) (LN: TWT) (Nasdaq: TWSTY)		25%
The Wireless Group (LN: TWG)		30%
UnitedGlobalCom, Inc. (Nasdaq: UCOMA)		53%

ENTITY	CUMULATIVE SUBSCRIPTION UNITS[1] AT 12/31/03 (000's)	ATTRIBUTED OWNERSHIP AT 12/31/03
INTERNATIONAL GROUP		
Jupiter Programming Co., Ltd. (Japan)	41,610	50%
Pramer S.C.A. (Argentina)	82,559	100%
The Premium Movie Partnership (Australia)	850	20%
Torneos y Competencias, S.A. (Argentina)		40%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/03
	INTERACTIVE GROUP	
Ascent Media Group, Inc.	Provides a wide range of traditional audio and video post-production, transmission, library services, and audio/video distribution services via satellite and fiber to worldwide clients in the feature film, television and advertising industries.	100%
IAC/InterActiveCorp (Nasdaq: IACI)	IAC/InterActiveCorp is comprised of the following operating businesses: Expedia, Inc., which oversees Interval International and TV Travel Shop; Hotels.com; HSN; Ticketmaster, which oversees Evite and ReserveAmerica; Match.com, which oversees uDate.com; Entertainment Publications; Citysearch; and Precision Response Corporation.	19%
On Command Corporation	Provider of in-room interactive entertainment, Internet access, business information and guest services for the lodging industry.	100%
OpenTV Corp. (Nasdaq: OPTV)	OpenTV provides a comprehensive suite of iTV solutions including operating middleware, web browser software, interactive applications, content creation tools, professional support services and strategic consulting.	31%(6)
priceline.com, Incorporated (Nasdaq: PCLN)	E-commerce service allowing consumers to make offers on products and services.	1%
QVC, Inc.	QVC, Inc. is an e-commerce leader, marketing a wide variety of brand name products in such categories as home furnishing, licensed products, fashion, beauty, electronics and fine jewelry.	98%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/03
	TECH/VENTURES GROUP	
IDT Corporation (Nasdaq: IDT)	A leading provider of wholesale and retail telecommunications services, using their own network infrastructure to route calls worldwide. IDT developed NET2Phone, a leading provider of Internet telephony, along with other innovative telecom and Internet-related businesses.	13%
Liberty Associated Partners/ Current Communications	Current offers high speed broadband access using electrical power lines	16%
Net2Phone Inc. (Nasdaq: NTOP)	Provider of voice and enhanced services over IP networks to consumers, businesses and carriers worldwide.	22%
TruePosition, Inc.	Provider of wireless location technology and services.	89%
Wildblue Communications, Inc.	Building a ka-band satellite network that will focus on providing broadband services to homes and small offices in North and South America.	32%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/03
	CORPORATE/FINANCING ASSETS	
ABC Family Worldwide, Inc.	ABC Family offers fun, light-hearted programming with a twist for kids, teens and adults. The channel features original series and movies, major theatrical releases, and repurposed programming from the ABC Television Network.	(7)
Motorola, Inc. (NYSE: MOT)	Provider of integrated communications solutions and embedded electronic solutions.	3%
Omnipoint Communications, Inc.	Holds one of three ''Pioneer's Preferences'' from the FCC allowing construction and operation of a broadband PCS system in the New York Major Trading Area. Omnipoint was acquired by Deutsche Telecom and is a part of the T-Mobile business.	4%
Sprint PCS Group (NYSE: PCS)	Provider of domestic wireless mobile phone services. Operates the only 100% digital PCS wireless network in the U.S.	20%(8)
Time Warner Inc. (NYSE: TWX)	Time Warner Inc. is one of the world's leading media and entertainment companies, whose businesses include filmed entertainment, interactive services, television networks, cable systems, music and publishing.	4%
Viacom Inc. (NYSE: VIA)	A leading global media company, with preeminent positions in broadcast and cable television, radio, outdoor advertising, and online. Well-known brands include CBS, MTV, Nickelodeon, Nick at Nite, VH1, BET, Paramount Pictures, Infinity Broadcasting, Viacom Outdoor, UPN, TV Land, Comedy Central, CMT: Country Music Television, Spike TV, Showtime, Blockbuster, and Simon & Schuster.	$<$1%
XM Satellite Radio Holdings, Inc. (Nasdaq: XMSR)	Transmits up to 100 national audio channels of music, news, talk, sports and children's programming from two satellites directly to vehicle, home and portable radios.	$<$1%

(1) Cumulative subscription units represent the total of all subscribers to all of the programming services offered by the respective company.

(2) On March 11, 2003, Liberty consummated a transaction in which Liberty contributed all of its Class A Common Stock of Crown Media Holdings, Inc. to Hallmark Entertainment Investments Co. in exchange for an approximate 18% ownership in Hallmark Entertainment.

(3) Revenue Generating Unit (or RGU) is separately a basic cable subscriber, DTH subscriber, digital cable subscriber, Internet subscriber or telephony subscriber. A home may contain one or more RGUs. For example, if a single residential customer subscribed to our basic cable service, digital cable service, high-speed Internet access service and telephony service, the customer would constitute four RGUs. Total RGUs is the sum of basic cable subscribers, DTH subscribers, digital cable subscribers, Internet subscribers and telephony subscribers.

(4) On January 29, 2004, Chorus entered Examinership (Irish equivalent of Bankruptcy) and is currently undergoing a restructuring under Irish insolvency laws. The restructuring plan includes a proposal whereby Liberty Media would make additional investments in Chorus and acquire the other 50% ownership interest. Liberty Media's proposal is conditioned upon, among other things, approval of the restructuring plan by the Irish court.

(5) All data presented for Jupiter Telecomunications, Co., Ltd. includes managed franchises only.

(6) On July 1, 2003, OpenTV completed its previously announced acquisition of ACTV, Inc. As a result, Liberty Media received approximately 6,456,969 Class A Ordinary additional OpenTV shares for its previous 16% stake in ACTV, Inc.

(7) Liberty's interest consists of shares of 30-year 9% preferred stock which have a stated aggregate value of $345 million and are not convertible into common stock.

(8) Less than 1% of voting power. Liberty beneficially owns shares of Sprint PCS Group Stock and instruments convertible into Sprint PCS Group Stock.

Market for Registrant's Common Equity and Related Stockholder Matters.

We have two series of common stock, Series A and Series B, which trade on the New York Stock Exchange under the symbols L and LMC.B, respectively. The following table sets forth the range of high and low sales prices of shares of our Series A and Series B common stock for the years ended December 31, 2003 and 2002.

	Series A		Series B	
	High	**Low**	**High**	**Low**
2003				
First quarter	$10.38	$ 8.45	$10.60	$ 8.65
Second quarter	$12.25	$ 9.52	$12.25	$ 9.50
Third quarter	$12.27	$ 9.86	$12.47	$10.11
Fourth quarter	$12.20	$ 9.78	$14.05	$ 9.90
2002				
First quarter	$15.03	$11.90	$15.90	$12.65
Second quarter	$12.80	$ 7.70	$13.49	$ 8.23
Third quarter	$ 9.60	$ 6.16	$ 9.75	$ 6.38
Fourth quarter	$10.75	$ 6.29	$11.00	$ 6.40

As of January 30, 2004, there were approximately 12,000 and 400 record holders of our Series A common stock and Series B common stock, respectively (which amounts do not include the number of shareholders whose shares are held of record by banks, brokerage houses or other institutions, but include each such institution as one shareholder).

We have not paid any cash dividends on our Series A common stock and Series B common stock, and we have no present intention of so doing. Payment of cash dividends, if any, in the future will be determined by our Board of Directors in light of our earnings, financial condition and other relevant considerations.

On November 28, 2003, we acquired all of the outstanding stock of TP Investment, Inc. in exchange for 5,281,739 shares of our Series B Common Stock. TP Investment is a corporation that, prior to the acquisition, was wholly owned by a limited liability company in which the sole member is John C. Malone, the chairman of our board of directors. The agreed value of the TP Investment stock acquired was $60,740,000. We believe this transaction was exempt from the registration requirements of the Securities Act by virtue of Section 4(2) of the Securities Act since it was not a public offering.

Selected Financial Data.

The following tables present selected historical information relating to our financial condition and results of operations for the past five years. The following data should be read in conjunction with our consolidated financial statements. We were a wholly-owned subsidiary of Tele-Communications, Inc. from August 1994 to March 9, 1999. On March 9, 1999, AT&T Corp. acquired TCI in a merger transaction. For financial reporting purposes, the AT&T Merger is deemed to have occurred on March 1, 1999. In connection with the merger, our assets and liabilities were adjusted to their respective fair values pursuant to the purchase method of accounting. Selected financial data for the two months ended February 28, 1999 has been excluded from the following table.

	December 31,				
	2003(1)	2002	2001	2000	1999
	(Amounts in millions)				
Summary Balance Sheet Data:					
Investments in available-for-sale securities and other cost investments	$19,949	$14,369	$21,152	$16,774	$27,906
Investment in affiliates	$ 5,354	$ 7,390	$10,076	$20,464	$15,922
Total assets	$54,013	$39,685	$48,539	$54,268	$58,658
Long-term debt	$ 9,482	$ 4,316	$ 4,764	$ 5,269	$ 2,723
Stockholders' equity	$28,842	$24,682	$30,123	$34,109	$38,408

	Years Ended December 31,				Ten Months Ended December 31,
	2003(1)	2002	2001	2000	1999
	(Amounts in millions, except per share amounts)				
Summary Statement of Operations Data:					
Revenue	$ 4,028	$ 2,084	$ 2,059	$ 1,526	$ 729
Operating income (loss)(2)	$ (956)	$ (184)	$(1,127)	$ 436	$(2,214)
Share of earnings (losses) of affiliates, net(3)	$ 58	$ (453)	$(4,906)	$(3,485)	$ (904)
Nontemporary declines in fair value of investments	$ (29)	$(6,053)	$(4,101)	$(1,463)	$ —
Realized and unrealized gains (losses) on financial instruments, net	$ (649)	$ 2,122	$ (174)	$ 223	$ (153)
Gains (losses) on dispositions, net	$ 1,128	$ (415)	$ (310)	$ 7,340	$ 4
Net earnings (loss)(2)(3)	$(1,222)	$(5,330)	$(6,203)	$ 1,485	$(2,021)
Basic and diluted net earnings (loss) per common share(4)	$ (.44)	$ (2.06)	$ (2.40)	$ .57	$ (.78)

(1) On September 17, 2003, we completed our acquisition of Comcast Corporation's approximate 56.5% ownership in QVC, Inc. for approximately $7.9 billion, comprised of cash, Floating Rate Senior Notes and shares of our Series A common stock. When combined with our previous ownership of approximately 41.7% of QVC, we owned 98.2% of QVC upon consummation of the transaction, which is deemed to have occurred on September 1, 2003, and we have consolidated QVC's financial position and results of operations since that date.

(2) Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which among other matters, provides that goodwill and other indefinite-lived assets no longer be amortized. Amortization expense for such assets aggregated $627 million, $598 million and $438 million for the years ended December 31, 2001 and 2000 and the ten months ended December 31, 1999, respectively.

(3) Included in share of losses of affiliates are other-than-temporary declines in value aggregating $84 million, $148 million and $2,396 million for the years ended December 31, 2003, 2002, and 2001, respectively. In addition, share of losses of affiliates includes excess basis amortization of $798 million, $1,058 million and $463 million for the years ended December 31, 2001, 2000 and the ten months ended

December 31, 1999, respectively. Pursuant to Statement 142, excess costs that are considered equity method goodwill are no longer amortized, but are evaluated for impairment under APB Opinion No. 18.

(4) The basic and diluted net earnings (loss) per common share for periods prior to August 10, 2001, the date of our split off from AT&T, is based upon 2,588 million shares of our Series A and Series B common stock issued upon consummation of the split off.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Overview

We are a holding company that owns majority and minority interests in a broad range of electronic retailing, video programming, broadband distribution and other communications companies. During the second half of 2003, we started changing our corporate focus to control more of our affiliated companies. The first step in this process was our September 2003 acquisition of Comcast Corporation's approximate 56% ownership interest in QVC, Inc., which when combined with our previous 42% ownership interest, gave us over 98% control of QVC, and we now consolidate the financial position and results of operations of QVC. In January 2004, we acquired all of the outstanding shares of Class B common stock of UnitedGlobalCom, Inc. from UGC's founding shareholders. Previously in December 2003, UGC completed the acquisition of all of the outstanding shares of UGC Europe, Inc. that it did not already own. As a result of these two transactions and our exercise of certain pre-emptive rights, UGC owns 100% of the outstanding common stock of UGC Europe and we own approximately 55% of the outstanding common stock of UGC representing approximately 92% of the voting power of UGC's shares. We began consolidating the operations of UGC effective January 1, 2004. In the fourth quarter of 2003, to further align our corporate structure with our operating assets, we organized our businesses into four Groups: Interactive Group, International Group, Networks Group and Corporate and Other. See "Business — Narrative Description of Business" included in Part I of this Annual Report on Form 10-K for a description of the more significant businesses in each of these Groups.

Our primary businesses in the Interactive Group are QVC and Ascent Media Group, Inc. In addition, we own approximately 20% of InterActiveCorp, which we account for as an available-for-sale security. In evaluating the prospects and risks for QVC, our primary focus is currently on the following: potential opportunities to expand the QVC footprint in international markets, and new domestic marketing concepts to capitalize on the growing Internet market. During 2003, the growth in QVC's domestic revenue leveled off, as compared to recent years. During 2004, our goal will be to continue QVC's international expansion by increasing (1) the number of customers who have access to and use our service and (2) the average sales per customer. In addition we hope to find new opportunities for domestic growth, including Internet sales.

Our primary businesses in the International Group are UGC, which provides broadband services primarily in Europe; Jupiter Telecommunications ("J-COM"), which provides broadband services in Japan and Jupiter Programming ("JPC"), which provides video programming in Japan, all of which were equity affiliates at December 31, 2003. Our consolidated subsidiaries in the International Group at December 31, 2003 are Liberty Cablevision of Puerto Rico and Pramer S.C.A. We believe our primary opportunities in our international markets include continued growth in subscribers; increasing the average revenue per unit by continuing to rollout telephony, Internet and digital video; developing foreign programming businesses, including international expansion of our domestic networks, to distribute over our broadband systems; and maximizing operating efficiencies on a regional basis. Potential impediments to achieving these goals include increasing price competition for broadband services; alternative video technologies; and available capital to finance the proposed rollout of new services.

Our primary businesses in the Networks Group are Starz Encore Group LLC, Discovery Communications, Inc., Courtroom Television Network, LLC and GSN (formerly, Game Show Network). In addition we own approximately 18% of The News Corporation Limited, which we account for as an available-for-sale security. We view the development of digital and interactive services, our ability to expand these networks and increase distribution over our international distribution footprint, as mentioned above, and our ability to increase advertising rates relative to broadcast networks and other cable networks as key opportunities for growth in the coming months and years. We face several key obstacles in our attempt to meet these goals, including: continued consolidation in the broadband and satellite distribution industries; the impact on viewer habits of new technologies such as video on demand and personal video recorders; and alternative movie and programming sources.

Certain of our subsidiaries and affiliates are dependent on the entertainment industry for entertainment, educational and informational programming. In addition, a significant portion of the revenue of certain of our subsidiaries and affiliates is generated by the sale of advertising on their networks. A prolonged downturn in the economy has had and could continue to have a negative impact on the revenue and operating income of these businesses. A slow economy could reduce (i) the development of new television and motion picture programming, thereby adversely impacting their supply of service offerings; (ii) consumer disposable income and consumer demand for their products and services; and (iii) the amount of resources allocated for network and cable television advertising by major corporations.

Our businesses that operate in countries other than the United States are subject to a number of risks including fluctuations in currency exchange rates and political unrest. In addition, the economies in many of the regions where our international businesses operate have recently experienced moderate to severe recessionary conditions, including among others, Argentina, Chile, the United Kingdom, Germany and Japan. These recessionary conditions have strained consumer and corporate spending and financial systems and financial institutions in these areas. As a result, our affiliates have experienced a reduction in consumer spending and demand for services.

In addition to the businesses included in the foregoing Groups, we continue to maintain significant investments in public companies such as Time Warner Inc., Viacom, Inc. and Sprint Corporation, which are accounted for as available-for-sale ("AFS") securities. We view these holdings as financial assets that we can monetize and deploy the resulting proceeds into any of our operating Groups.

Summary of Operations

To assist you in understanding and analyzing our business in the same manner we do, we have organized the following discussion of our results of operations into two parts: Consolidated Operating Results, and Operating Results by Business Group. The Operating Results by Business Group section includes a discussion of the more significant businesses within each Group.

Consolidated Operating Results

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Revenue			
Interactive Group	$ 2,798	$ 794	$ 832
International Group	107	100	138
Networks Group	1,114	1,145	1,030
Corporate and Other	9	45	59
Consolidated revenue	$ 4,028	$2,084	$ 2,059
Operating Cash Flow			
Interactive Group	$ 496	$ 61	$ 76
International Group	27	26	42
Networks Group	381	374	327
Corporate and Other	(72)	(37)	(68)
Consolidated operating cash flow	$ 832	$ 424	$ 377
Operating Income (Loss)			
Interactive Group	$ 139	$ (339)	$ (528)
International Group	12	11	(36)
Networks Group	248	189	49
Corporate and Other	(1,355)	(45)	(612)
Consolidated operating loss	$ (956)	$ (184)	$(1,127)

Revenue. Our consolidated revenue increased 93.3% and 1.2% in 2003 and 2002, respectively, as compared to the corresponding prior year. The 2003 increase is due primarily to QVC, which recognized $1,973 million of revenue since our acquisition in September. In addition, revenue for the Interactive Group increased $45 million due to our acquisition of OpenTV Corp. in August 2002 and decreased $30 million at Ascent Media. The Networks Group revenue decreased due primarily to a reduction in rates in former AT&T Broadband systems resulting from the re-negotiation of Starz Encore's affiliation agreement with Comcast in 2003. The increase in consolidated revenue in 2002 was primarily the net result of a 9.5% increase in Starz Encore's revenue partially offset by a 9.3% decrease in Ascent Media's revenue. See *"Operating Results by Business Group"* below for a more complete discussion of these fluctuations.

Operating Cash Flow. We define Operating Cash Flow as revenue less cost of sales, operating expenses and selling, general and administrative ("SG&A") expenses (excluding stock compensation). Our chief operating decision maker and management team use this measure of performance in conjunction with other measures applied on a Group by Group basis to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation and amortization, stock compensation and impairments of long-lived assets that are included in the measurement of operating income pursuant to general accepted accounting principles ("GAAP"). Accordingly, Operating Cash Flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. See footnote 18 to the accompanying consolidated financial statements for a reconciliation of Operating Cash Flow to Earnings Before Income Taxes and Minority Interest.

Consolidated Operating Cash Flow increased 96.2% and 12.5% in 2003 and 2002, respectively, as compared to the corresponding prior year. The increase in 2003 is due primarily to our acquisition of QVC, which contributed $434 million to our consolidated Operating Cash Flow. This increase was partially offset by a decrease in our Corporate and Other Group, which resulted from lower revenue from ancillary sources and higher legal and consulting expenses. The 2002 increase is primarily the net effect of a $58 million increase in Starz Encore's Operating Cash Flow and lower corporate SG&A expenses of $28 million, partially offset by a $44 million operating cash flow deficit at OpenTV, which was acquired in 2002. The decrease in corporate SG&A expenses in 2002 resulted from the sale of certain business units in 2002 and expenses incurred in 2001 related to our split-off from AT&T Corp.

Stock compensation. Stock compensation includes compensation related to (1) options and stock appreciation rights for shares of our common stock that are granted to certain of our officers and employees, (2) phantom stock appreciation rights ("PSARs") granted to officers and employees of certain of our subsidiaries pursuant to private equity plans and (3) amortization of restricted stock grants. In connection with our rights offering in the fourth quarter of 2002 and pursuant to the antidilution provisions of the stock incentive plans we administer, the number of shares and the applicable exercise prices of all of our options were adjusted as of October 31, 2002, the record date for the rights offering. As a result of these modifications, all of our outstanding options are now accounted for as variable plan awards. The amount of expense associated with stock compensation is generally based on the vesting of the related stock options and stock appreciation rights and the market price of the underlying common stock, as well as the vesting of PSARs and the equity value of the related subsidiary. The decrease in stock compensation in 2003 is primarily a result of a decrease in the equity value of Starz Encore. The expense reflected in the table is based on the market price of the underlying common stock as of the date of the financial statements and is subject to future adjustment based on market price fluctuations, vesting percentages and, ultimately, on the final determination of market value when the options are exercised.

Depreciation and Amortization. The increase in depreciation in 2003 is due to increases in our depreciable asset base resulting from (1) the acquisition of QVC and (2) capital expenditures. The increase in amortization in 2003 is due primarily to the acquisition of QVC and amortization of the related intangible assets. Effective January 1, 2002, Liberty and its subsidiaries adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Statement 142 provides that goodwill and indefinite lived intangibles are no longer amortized, but are evaluated periodically for impairment. The decrease in amortization in 2002 is due to the adoption of Statement 142 and the resulting elimination of goodwill amortization.

Impairment of Long-lived Assets. Starz Encore received an independent third party valuation in connection with its annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of Starz Encore, indicated that the fair value of this reporting unit was less than its carrying value including goodwill. This reporting unit fair value was then used to calculate an implied value of the goodwill related to Starz Encore. The $1,352 million excess of the carrying amount of the goodwill (including $1,195 million of allocated enterprise-level goodwill) over its implied value has been recorded as an impairment charge in the fourth quarter of 2003. Starz Encore's operating income includes $157 million of the foregoing impairment charge and $1,195 million is included in Corporate and Other. The reduction in the value of Starz Encore reflected in the third party valuation is believed to be attributable to a number of factors. Those factors include the reliance placed in that valuation on projections by management reflecting a lower rate of revenue growth compared to earlier projections based, among other things, on the possibility that revenue growth may be negatively affected by (1) a reduction in the rate of growth in total digital video subscribers and in the subscription video on demand business as a result of cable operators' increased focus on the marketing and sale of other services, such as high speed internet access and telephony, and the uncertainty as to the success of marketing efforts by distributors of Starz Encore's services and (2) lower per subscriber rates under the new affiliation agreement with Comcast, as compared to the payments required under the 1997 AT&T Broadband Affiliation Agreement (including the programming pass through provision).

During the years ended December 31, 2002 and 2001, we determined that the carrying value of certain of our subsidiaries' assets exceeded their respective fair values. Accordingly, in 2002 we recorded impairments of goodwill related to OpenTV ($92 million), Ascent Media ($84 million), our Latin American consolidated and equity investments ($46 million), DMX Music ($44 million) and On Command Corporation ($9 million). Such impairments were calculated as the difference between the carrying value and the estimated fair value of the related assets. In 2001, we recorded impairments of (1) Ascent Media's property and equipment and goodwill of $313 million and (2) goodwill of $75 million primarily related to the devaluation of the Argentine peso and the impact of such devaluation on Pramer, our wholly-owned Argentine programming subsidiary.

Operating Income (Loss). Consolidated operating loss increased $772 million in 2003 and decreased $943 million in 2002, as compared to the corresponding prior year. The increase in 2003 is due to the impairment of Starz Encore's goodwill partially offset by the operating income of QVC from the date of its acquisition. The decrease in 2002 is due primarily to (1) our adoption of Statement 142 and the resulting elimination of amortization on indefinite lived intangible assets and goodwill, (2) a decrease in stock compensation expense and (3) lower impairment charges.

Other Income and Expense

Interest expense. Interest expense was $539 million, $423 million and $525 million, for the years ended December 31, 2003, 2002 and 2001, respectively, including $61 million, $7 million and $6 million, respectively, of accretion of our exchangeable debentures. The remaining increase in interest expense in 2003 is due primarily to an increase in our debt balance in 2003. The decrease in 2002 is due to a lower average debt balance in 2002 and lower interest rates on certain variable-rate subsidiary and parent company bank debt.

Dividend and interest income. Dividend and interest income was $189 million, $209 million and $272 million for the years ended December 31, 2003, 2002 and 2001, respectively. The 2002 decrease is the net effect of lower interest rates on invested cash balances, offset by increases due to dividends from our Vivendi Universal and News Corp. investments. In 2001, we also earned interest on certain debt securities that we purchased in the second and third quarter of 2001. The majority of these debt securities were contributed to UGC in January 2002. Interest and dividend income for the year ended December 31, 2003 was comprised of interest income earned on invested cash ($61 million), dividends on News Corp. American Depository Shares ("ADSs") ($40 million), dividends on ABC Family Worldwide preferred stock ($31 million) and other ($57 million).

Investments in Affiliates Accounted for Using the Equity Method. Our share of earnings (losses) of affiliates was $58 million, ($453) million and ($4,906) million during the years ended December 31, 2003, 2002 and 2001, respectively. A summary of our share of losses of affiliates, including nontemporary declines in value and excess cost amortization, is included below:

	Percentage Ownership at December 31, 2003	Years Ended December 31, 2003	2002	2001
		(Amounts in millions)		
Discovery	50%	$ 38	$ (32)	$ (293)
J-COM	45%	20	(22)	(90)
QVC	*	107	154	36
UGC	52%	—	(198)	(751)
Telewest Communications plc	*	—	(92)	(2,538)
Cablevisión S.A.	39%	—	—	(476)
ASTROLINK International LLC	*	—	(1)	(417)
Other	Various	(107)	(262)	(377)
		$ 58	$(453)	$(4,906)

* No longer an equity affiliate

At December 31, 2003, the aggregate carrying amount of our investments in affiliates exceeded our proportionate share of our affiliates' net assets by $7,021 million. Prior to the adoption of Statement 142, this excess basis was being amortized over estimated useful lives of up to 20 years based on the useful lives of the intangible assets represented by such excess costs. Such amortization was $798 million for the year ended December 31, 2001, and is included in our share of losses of affiliates. Upon adoption of Statement 142, we discontinued amortizing equity method excess costs in existence at the adoption date due to their characterization as equity method goodwill. Also included in share of losses for the years ended December 31, 2003, 2002 and 2001, are adjustments for nontemporary declines in value aggregating $84 million, $148 million and $2,396 million, respectively. See *"Operating Results by Business Group"* below for a discussion of our more significant equity method affiliates.

Nontemporary declines in fair value of investments. During 2003, 2002 and 2001, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The following table identifies such adjustments attributable to each of the individual investments as follows:

Investments	Years Ended December 31, 2003	2002	2001
	(Amounts in millions)		
Time Warner Inc.	$—	$2,567	$2,052
News Corp.	—	1,393	915
Sprint PCS	—	1,077	—
Vivendi	—	409	—
Other	29	607	1,134
	$29	$6,053	$4,101

Gains (losses) on dispositions. Aggregate gains (losses) from dispositions during the years ended December 31, 2003, 2002 and 2001, are comprised of the following.

Transaction	Years Ended December 31, 2003	2002	2001
	(Amounts in millions)		
Sale of investment in Cendant Corporation	$ 510	$ —	$ —
Sale of investment in Vivendi	262	—	—
Sale of News Corp. non-voting shares	236	—	—
UGC Transaction	—	123	—
Exchange of USAI equity securities for Vivendi common stock	—	(817)	—
Sale of Telemundo Communications Group	—	344	—
Merger of Viacom and BET Holdings II, Inc.	—	—	559
Exchange of our Gemstar-TV Guide International, Inc. common stock for News Corp. ADSs	—	—	(965)
Other	120	(65)	96
	$1,128	$(415)	$(310)

In all of the above exchange transactions, the gains or losses were calculated based upon the difference between the carrying value of the assets relinquished, as determined on an average cost basis, compared to the fair value of the assets received. See notes 5 and 6 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Realized and unrealized gains (losses) on derivative instruments. Realized and unrealized gains (losses) on derivative instruments during the years ended December 31, 2003, 2002 and 2001 are comprised of the following:

	Years Ended December 31, 2003	2002	2001
	(Amounts in millions)		
Change in fair value of exchangeable debenture call option features	$(158)	$ 784	$ 167
Change in fair value of hedged AFS securities	—	(2,378)	(1,531)
Change in fair value of AFS derivatives	(535)	3,665	1,177
Change in fair value of other derivatives(1)	44	51	13
Total realized and unrealized gains (losses), net	$(649)	$ 2,122	$ (174)

(1) Comprised primarily of forward foreign exchange contracts and interest rate swap agreements.

During 2001 and 2002, we had designated our equity collars as fair value hedges. Pursuant to Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* the equity collars were recorded on the balance sheet at fair value, and changes in the fair value of the equity collars and of the hedged security were recognized in earnings. Effective December 31, 2002, we elected to dedesignate our equity collars as fair value hedges. This election had no impact on our financial position at December 31, 2002 or our results of operations for the year ended December 31, 2002. Subsequent to December 31, 2002, changes in the fair value of our available-for-sale securities that previously had been reported in earnings due to the designation of equity collars as fair value hedges are now reported as a component of other comprehensive income on our balance sheet. Changes in the fair value of the equity collars continue to be reported in earnings.

Income taxes. Our effective tax rate was not meaningful in 2003 and was 33% and 36% for the years ended December 31, 2002 and 2001, respectively. Although we had a loss before tax expense for book purposes in 2003, we recorded tax expense of $374 million primarily due to our impairment of goodwill, which is not deductible for tax purposes. In addition, we incurred state and foreign taxes and an increase in our valuation allowance for losses of subsidiaries that we do not consolidate for tax purposes. The effective tax rates in 2002 and 2001 differed from the U.S. Federal income tax rate of 35% primarily due to state and local taxes and amortization for book purposes that is not deductible for income tax purposes.

Cumulative effect of accounting change. We and our subsidiaries adopted Statement 142 effective January 1, 2002. Upon adoption, we determined that the carrying value of certain of our reporting units (including allocated goodwill) was not recoverable. Accordingly, in the first quarter of 2002, we recorded an impairment loss of $1,869 million, net of related taxes, as the cumulative effect of a change in accounting principle. This transitional impairment loss includes an adjustment of $325 million for our proportionate share of transition adjustments that our equity method affiliates have recorded.

Effective January 1, 2001, we adopted Statement 133, which established accounting and reporting standards for derivative instruments. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

The adoption of Statement 133 on January 1, 2001, resulted in a cumulative increase in net earnings of $545 million (after tax expense of $356 million) and an increase in other comprehensive loss of $87 million. The increase in net earnings was mostly attributable to separately recording the fair value of our embedded call option obligations associated with our senior exchangeable debentures. The increase in other comprehensive loss relates primarily to changes in the fair value of our warrants and options to purchase certain available-for-sale securities.

Operating Results by Business Group

The tables in this section present 100% of each business' revenue, operating cash flow and operating income even though we own less than 100% of many of these businesses. These amounts are combined on an unconsolidated basis and are then adjusted to remove the effects of the equity method investments to arrive at the consolidated amounts for each group. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses within each group regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with GAAP since the results of operations of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate.

The financial information presented below for equity method affiliates was obtained directly from those affiliates. We do not control the decision-making process or business management practices of our equity affiliates. Accordingly, we rely on the management of these affiliates and their independent auditors to provide us with financial information prepared in accordance with GAAP. As a result, we make no representations as to whether such information has been prepared in accordance with GAAP. We are not aware, however, of any errors in or possible misstatements of the financial information provided by our equity affiliates that would have a material effect on our consolidated financial statements.

Interactive Group

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Revenue			
QVC(1)	$ 4,889	$ 4,362	$ 3,894
Ascent Media	508	538	593
Other consolidated subsidiaries	317	256	239
Other equity method affiliates	88	138	—
Combined Interactive Group revenue	5,802	5,294	4,726
Eliminate revenue of equity method affiliates(1)	(3,004)	(4,500)	(3,894)
Consolidated Interactive Group revenue	$ 2,798	$ 794	$ 832
Operating Cash Flow			
QVC(1)	$ 1,013	$ 861	$ 722
Ascent Media	75	87	89
Other consolidated subsidiaries	(13)	(26)	(13)
Other equity method affiliates	(20)	(91)	—
Combined Interactive Group operating cash flow	1,055	831	798
Eliminate operating cash flow of equity method affiliates(1)	(559)	(770)	(722)
Consolidated Interactive Group operating cash flow	$ 496	$ 61	$ 76
Operating Income (Loss)			
QVC(1)	$ 785	$ 737	$ 582
Ascent Media	1	(65)	(363)
Other consolidated subsidiaries	(154)	(274)	(165)
Other equity method affiliates	(50)	(258)	—
Combined Interactive Group operating income	582	140	54
Eliminate operating income of equity method affiliates(1)	(443)	(479)	(582)
Consolidated Interactive Group operating income (loss)	$ 139	$ (339)	$ (528)

(1) QVC was an equity method affiliate until September 2003 when it became a consolidated subsidiary.

QVC. QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs. In the United States, the programs are aired through its nationally televised shopping network — 24 hours a day, 7 days a week ("QVC-US"). Internationally, QVC has electronic retailing program services based in the United Kingdom ("QVC-England"), Germany ("QVC-Deutschland") and Japan ("QVC-Japan"). As more fully described in note 4 to the accompanying consolidated financial statements, we acquired a controlling interest in QVC on September 17, 2003. For financial reporting purposes, the acquisition is deemed to have occurred on September 1, 2003, and we have consolidated QVC's results of operations since that date. Accordingly, increases in the Interactive Group's revenue and expenses for the year ended December 31, 2003 are primarily the result of the September 2003 acquisition of QVC.

The following discussion describes QVC's results of operations for the full years ended December 31, 2003, 2002 and 2001. Depreciation and amortization for periods prior and subsequent to Liberty's acquisition of Comcast's interest in QVC are not comparable as a result of the effects of purchase accounting. However, in order to provide a more meaningful basis for comparing the 2003, 2002 and 2001 periods, the operating results of QVC for the four months ended December 31, 2003 have been combined with the eight months ended August 31, 2003 in the following table and discussion. The combining of predecessor and successor accounting periods is not permitted by GAAP.

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Net revenue	$ 4,889	$ 4,362	$ 3,894
Cost of sales	(3,107)	(2,784)	(2,503)
Gross profit	1,782	1,578	1,391
Operating expenses	(447)	(413)	(383)
SG&A expenses	(322)	(304)	(286)
Stock compensation	(6)	(5)	(2)
Depreciation and amortization	(222)	(119)	(138)
Operating income	$ 785	$ 737	$ 582

Net revenue for the years ended December 31, 2003, 2002 and 2001 includes the following revenue by geographical area:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
QVC-US	$3,845	$3,705	$3,409
QVC-England	370	296	272
QVC-Deutschland	429	275	198
QVC-Japan	245	86	15
Consolidated	$4,889	$4,362	$3,894

QVC's consolidated net revenue increased 12.1% during the year ended December 31, 2003 as compared to the year ended December 31, 2002. Such increase is due primarily to increases in average sales per customer for both QVC-Deutschland and QVC-Japan of 48.4% and 73.0%, respectively. In addition, the number of homes receiving the QVC-Deutschland and QVC-Japan service increased 5.6% and 64.6%, respectively, from December 31, 2002 to December 31, 2003. Additional increases in net revenue were due to a 2.8% and a 6.3% increase in net sales per customer in the U.S. and the U.K., respectively. QVC's net revenue increased 12.0% for the year ended December 31, 2002, as compared to 2001. Such increase was due to a 3.6% increase in the average number of U.S. homes receiving the QVC service and a 5.3% increase in net sales to existing U.S. subscribers. Additional increases in net revenues were due to a 252.7% and 29.1% increase in net sales per customer for QVC-Japan and QVC-Deutschland, respectively. As the QVC service is already received by substantially all of the cable television and direct broadcast satellite homes in the U.S., future growth in U.S. sales will depend on continued additions of new customers from homes already receiving the QVC service and continued growth in sales to existing customers. QVC's future sales may also be affected by the willingness of cable and satellite distributors to continue to carry QVC's programming service as well as general economic conditions.

During the years ended December 31, 2003, 2002 and 2001 the increases in revenue were also impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. The percentage increase in revenue for each of QVC's geographic areas in dollars and in local currency is as follows:

	Percentage Increase in Net Revenue			
	Year Ended December 31, 2003		Year Ended December 31, 2002	
	US Dollars	Local Currency	US Dollars	Local Currency
QVC-US	3.8%		8.7%	
QVC-England	25.0%	14.2%	8.8%	5.8%
QVC-Deutschland	56.0%	31.0%	38.9%	31.6%
QVC-Japan	184.9%	170.2%	473.3%	485.1%

Gross profit increased from 35.7% of net revenue for the year ended December 31, 2001 to 36.2% for the year ended December 31, 2002 and to 36.4% for 2003. The 2003 increase in gross profit percentage is primarily the result of a higher product margin due to a shift in the product mix from lower margin home products to higher margin apparel and accessory categories. In addition, QVC had a lower inventory obsolescence provision in 2003. The increase in the 2002 gross profit percentage is primarily the result of increased product margin.

QVC's operating expenses are comprised of commissions and license fees, order processing and customer service, provision for doubtful accounts, and credit card processing fees. Operating expenses increased 8.2% and 7.8% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year period. These increases are primarily due to the increases in sales volume. As a percentage of net revenue, operating expenses were 9.1%, 9.5% and 9.8% for 2003, 2002 and 2001, respectively. As a percent of net revenue, commissions and license fees decreased in 2003, as compared to 2002, and remained constant over the 2002 and 2001 periods. The 2003 decrease is due to an increase in Internet sales, for which lower commissions are required to be paid. In addition, commissions and license fee expense decreased as a percentage of net revenue in 2003 for QVC-Japan where certain distributors receive payments based on number of subscribers rather than sales volume. As a percent of net revenue, order processing and customer service expenses remained constant in 2003 and decreased in each geographical segment in 2002. Such decrease is a result of reduced personnel expense due to increased Internet sales, increased use of QVC's automated telephone system and operator efficiencies in call handling and staffing. Credit card processing fees remained constant at 1.4% of net revenue for the years ended December 31, 2003, 2002 and 2001.

QVC's SG&A expenses increased 5.9% and 6.3% during the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year periods. The 2003 increase is primarily the net result of increases in personnel, transponder and occupancy costs, partially offset by decreases in advertising and marketing costs. Personnel cost increases reflect the addition of personnel to support the increased sales of the foreign operations. The increase in transponder fees is primarily the result of QVC-UK purchasing greater band-width as well as incurring a full year of digital transmission fees. Occupancy costs increased primarily as the result of higher costs for expanded office space in QVC-Japan. Decreases in advertising and marketing were primarily due to decreased domestic spending related to U.S. infomercial ventures as well as lower payments to affiliates for short-term carriage and incentive programs. The increase in SG&A in 2002 is due primarily to higher personnel costs due to the expansion of the international businesses.

QVC's depreciation and amortization expense increased for the year ended December 31, 2003 due to the amortization of intangible assets recorded in connection with our purchase of QVC.

Ascent Media. Ascent Media provides sound, video and ancillary post production and distribution services to the motion picture and television industries in the United States, Europe, Asia and Mexico. Accordingly, Ascent Media is dependent on the television and movie production industries and the commercial advertising market for a substantial portion of its revenue.

Ascent Media's revenue decreased 5.6% and 9.3% during the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The 2003 decrease is due primarily to a decrease in revenue for Ascent Media's Networks Group ($29 million) due to the sale of a business unit in December 2002 and the re-negotiation of certain contracts resulting in lower rates for services. The 2002 decrease is the net effect of decreases due to reduced television and motion picture production activity and lower television advertising production, which were partially offset by an increase due to acquisitions in the second half of 2001.

Ascent Media's operating expenses decreased $21 million or 6.5% and $48 million or 13.0% during the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. These decreases are due to decreases in variable expenses such as personnel and material costs. In addition, the 2003 decrease is due to the sale of the Networks Group business unit referred to above.

Ascent Media's general and administrative expenses were relatively comparable over the 2001, 2002 and 2003 periods.

Ascent Media's depreciation and amortization increased 4.8% and decreased 47.7% in 2003 and 2002, respectively. The decrease in depreciation and amortization in 2002 is due primarily to the adoption of Statement 142 and the resulting elimination of goodwill amortization.

In connection with its 2002 Statement 142 impairment analysis, Ascent Media recorded an $84 million charge to write off a portion of the goodwill related to its Entertainment Television reporting unit. As a result of the weakness in the economy and in the entertainment and advertising industries during 2001, Ascent Media did not meet its 2001 operating objectives and reduced its 2002 expectations. Accordingly, at December 31, 2001, Ascent Media assessed the recoverability of its property and equipment and intangible assets and determined that an impairment adjustment was necessary. In addition, in the fourth quarter of 2001, Ascent Media made the decision to consolidate its operations and close certain facilities. In connection with these initiatives, Ascent Media recorded a restructuring charge related to lease cancellation fees and an additional impairment charge related to its property and equipment. All of the foregoing charges are included in impairment of long-lived assets in our statement of operations for the year ended December 31, 2001. No significant impairments were recorded by Ascent Media in 2003.

Other. Consolidated subsidiaries included in the Interactive Group are On Command, which provides in-room, on demand video entertainment and information services to hotels, motels and resorts; TruePosition, Inc., which provides equipment and technology that deliver location-based services to wireless users; and OpenTV, which provides interactive television solutions, including operating middleware, web browser software, interactive applications, and consulting and support services. Other consolidated subsidiary revenue increased $61 million in 2003 due primarily to the operations of OpenTV ($46 million), which we acquired in August 2002 and True Position ($20 million), which began deploying its networks in 2003. The improvements in operating cash flow and operating income in 2003 are due to the same factors. The increase in other consolidated subsidiary revenue in 2002 is due to our acquisition of OpenTV. The changes in operating cash flow and operating income in 2002 are due to improvements in the operations of On Command and True Position, offset by OpenTV losses.

International Group

The following table includes information regarding our equity method affiliates, which presentation is not in accordance with GAAP. See — "Operating Results by Business Group" above.

	Years Ended December 31, 2003	2002	2001
	(Amounts in millions)		
Revenue			
Consolidated subsidiaries	$ 107	$ 100	$ 138
UGC(1)	1,892	1,515	1,562
J-COM(1)	1,233	931	629
JPC(1)	412	274	207
Other equity method affiliates(1)	614	568	854
Combined International Group revenue	4,258	3,388	3,390
Eliminate revenue of equity method affiliates	(4,151)	(3,288)	(3,252)
Consolidated International Group revenue	$ 107	$ 100	$ 138
Operating Cash Flow			
Consolidated subsidiaries	$ 27	$ 26	$ 42
UGC(1)	629	296	(191)
J-COM(1)	429	211	57
JPC(1)	54	32	19
Other equity method affiliates(1)	91	87	61
Combined International Group operating cash flow	1,230	652	(12)
Eliminate operating cash flow of equity method affiliates	(1,203)	(626)	54
Consolidated International Group operating cash flow	$ 27	$ 26	$ 42
Operating Income (Loss)			
Consolidated subsidiaries	$ 12	$ 11	$ (36)
UGC(1)	(656)	(899)	(2,872)
J-COM(1)	114	(29)	(195)
JPC(1)	44	23	12
Other equity method affiliates(1)	(36)	(296)	(88)
Combined International Group operating loss	(522)	(1,190)	(3,179)
Eliminate operating income of equity method affiliates	534	1,201	3,143
Consolidated International Group operating income (loss)	$ 12	$ 11	$ (36)

(1) Represents an equity method affiliate. Equity ownership percentages for significant equity affiliates at December 31, 2003 are as follows:

UGC	52%
J-COM	45%
JPC	50%

Consolidated Subsidiaries. Our international consolidated subsidiaries are Liberty Cablevision of Puerto Rico, Inc., which provides cable television and other broadband services in Puerto Rico, and Pramer, which owns and distributes programming services throughout Latin America. Consolidated International Group revenue, operating cash flow and operating income was relatively consistent from 2002 to 2003. The decrease in revenue and operating cash flow from 2001 to 2002 is due to the devaluation of the Argentine peso during 2002.

UGC. UGC's revenue increased 24.9% and decreased 3.0% for the years ended December 31, 2003 and 2002, respectively. The increase in 2003 is due primarily to an increase in subscribers, revenue per subscriber and the strengthening of the euro against the U.S. dollar (approximately 16.1%). The decrease in 2002 is due to the sale of UGC's Australian operations partially offset by increases in Europe and Chile. UGC's operating expenses decreased $4 million or less than 1% in 2003 and $290 million or 27.3% in 2002. These decreases are due primarily to cost control initiatives, including restructurings. The 2002 expenses were also impacted by the sale of UGC's Australian operations. UGC's SG&A expenses increased $48 million or 10.7% in 2003 and decreased $244 million or 35.4% in 2002. The 2003 increase is due primarily to the strengthening of the euro against the U.S. dollar. The 2002 decrease is the result of cost control initiatives and the sale of UGC's Australian operations.

Also included in UGC's operating losses are (i) impairments of long-lived assets of $1,321 million in 2001, compared to $436 million in 2002 and $402 million in 2003, and (ii) restructuring charges of $204 million in 2001, compared to $1 million in 2002 and $36 million in 2003.

J-COM. J-COM's revenue increased 32.5% and 48.0% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The increase in revenue in 2003 was due to a 10.3% increase in the number of homes receiving at least one service, a 8.4% increase in the average number of services per home and a 9.6% increase in the average revenue per household receiving at least one service ("ARPH"). Revenue increased in 2002 due to a 23.2% increase in homes receiving at least one service, a 11.7% increase in average number of services per home and a 9.2% increase in ARPH. In addition, changes in the exchange rate also positively impacted revenue in 2003 and 2002. On a local currency basis, J-COM's revenue increased 22.7% and 52.3% in 2003 and 2002, respectively.

J-COM's operating expenses increased 17.0% and 22.2% in 2003 and 2002, respectively. These increases are due to the increase in subscribers and growth of J-COM's business. As a percent of revenue, operating expenses decreased from 40.3% in 2002 to 35.5% in 2003 due to the realization of economies of scale from the growth of the business. SG&A expenses increased 6.2% and 30.1% in 2003 and 2002, respectively. The increase in SG&A expenses are due to the growth of the business in 2002 and exchange rate fluctuations in 2003.

JPC. JPC's revenue increased 50.4% and 32.2% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior years. The increase in 2003 was largely due to increases in revenue for *Shop Channel,* which experienced an 17.5% increase in full time equivalent homes ("FTE's") and a 14% increase in sales per FTE. In 2002, *Shop Channel* had a 30.4% increase in FTE's and a 8.2% increase in sales per FTE. Affiliate revenue and advertising revenue at JPC's other networks also contributed to the overall revenue increase in both years due to continued subscriber growth at those networks. *Shop Channel* revenue accounted for 81%, 80% and 78% of JPC's revenue in 2003, 2002 and 2001, respectively. In addition, changes in the exchange rate also positively impacted revenue in 2003 and 2002. On a local currency basis, JPC's revenue increased 39.4% and 36.1% in 2003 and 2002, respectively.

JPC's operating expenses increased 50.5% and 43.0% in 2003 and 2002, respectively. These increases are primarily due to higher cost of goods sold at *Shop Channel* resulting from revenue increases of 41.3% and 38.9% during 2003 and 2002, respectively. JPC's SG&A expenses increased 29.8% and 25.1% in 2003 and 2002, respectively. The increases in SG&A were due to growth in the business resulting from additional sales volume at *Shop Channel* and additional channel offerings.

Other Equity Method Affiliates. The decreases in revenue, operating cash flow and operating income in 2002 are due primarily to the devaluation of the Argentine peso and the resulting impact on the financial results of Cablevisión S.A., which provides broadband services in Argentina.

Networks Group

The following table includes information regarding our equity method affiliates, which presentation is not in accordance with GAAP. See "— Operating Results by Business Group" above.

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Revenue			
Starz Encore	$ 906	$ 945	$ 863
Discovery(1)	1,995	1,717	1,517
Court TV(1)	193	148	118
GSN(1)	76	53	37
Other consolidated subsidiaries	208	200	167
Combined Networks Group revenue	3,378	3,063	2,702
Eliminate revenue of equity method affiliates	(2,264)	(1,918)	(1,672)
Consolidated Networks Group revenue	$ 1,114	$ 1,145	$ 1,030
Operating Cash Flow			
Starz Encore	$ 368	$ 371	$ 313
Discovery(1)	508	379	286
Court TV(1)	44	(1)	(3)
GSN(1)	1	(11)	(17)
Other consolidated subsidiaries	13	3	14
Combined Networks Group operating cash flow	934	741	593
Eliminate operating cash flow of equity method affiliates	(553)	(367)	(266)
Consolidated Networks Group operating cash flow	$ 381	$ 374	$ 327
Operating Income (Loss)			
Starz Encore	$ 266	$ 297	$ 68
Discovery(1)	314	169	69
Court TV(1)	14	(18)	(13)
GSN(1)	(1)	(12)	(17)
Other consolidated subsidiaries	(18)	(108)	(19)
Combined Networks Group operating income	575	328	88
Eliminate operating income of equity method affiliates	(327)	(139)	(39)
Consolidated Networks Group operating income	$ 248	$ 189	$ 49

(1) Represents an equity method affiliate. Equity ownership percentages for significant equity affiliates at December 31, 2003 are as follows:

Discovery	50%
Court TV	50%
GSN	50%

Starz Encore. Starz Encore provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. The majority of Starz Encore's revenue is derived from the delivery of movies to subscribers under affiliation agreements with these video programming distributors. Prior to 2001, Starz Encore had entered into an affiliation agreement with AT&T Broadband LLC (previously known as Tele-Communications, Inc.), which provided for AT&T Broadband's unlimited access to all of the existing Encore and STARZ! services in exchange for fixed monthly payments to Starz Encore (the "1997 Affiliation Agreement"). The payment from AT&T Broadband was to be adjusted if AT&T acquired or disposed of cable systems, or if Starz Encore's cash programming costs increased or decreased, as the case may be, above or below amounts specified in the agreement. In such cases, AT&T Broadband's payments under the 1997 Affiliation Agreement would have been increased or decreased in an amount equal to a proportion of the excess or shortfall.

In November 2002, AT&T Broadband completed a transaction with Comcast Corporation and Comcast Holdings Corporation in which AT&T Broadband and Comcast Holdings became wholly-owned subsidiaries of Comcast, and AT&T Broadband was renamed Comcast Cable Holdings, LLC. Upon completion of this transaction, Comcast challenged the validity and enforceability of the 1997 Affiliation Agreement. In September 2003, Starz Encore and Comcast entered into a seven-year agreement (the "2003 Comcast Affiliation Agreement") for the carriage of the STARZ! and Encore movie services on all Comcast owned and operated cable systems (including those of Comcast Cable Holdings). This agreement resolved all of the disputes and litigation that were pending between Starz Encore and Comcast with respect to the 1997 Affiliation Agreement.

Pursuant to the terms of the 2003 Comcast Affiliation Agreement, Comcast made payments to Starz Encore for Comcast Cable Holdings subscribers for the period from November 2002 to December 31, 2003 based on the per-subscriber rates included in the Comcast consignment agreement that was in effect prior to the execution of the 2003 Comcast Affiliation Agreement. The 2003 Comcast Affiliation Agreement also includes provisions for the distribution of new Starz Encore products in select Comcast systems and provisions for co-operative marketing efforts between Comcast and Starz Encore. Unlike the 1997 Affiliation Agreement, the 2003 Comcast Affiliation Agreement does not include any provision permitting Starz Encore to pass through a portion of its programming costs.

Starz Encore's revenue decreased 4.1% and increased 9.5% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior years. The 2003 decrease is primarily the net effect of a $77 million reduction in revenue from Comcast Cable Holdings partially offset by a $35 million increase in revenue from other distributors resulting from a 13.6% increase in the number of average subscription units to Starz Encore's services. Substantially all of the increase in the average number of subscription units is attributable to Starz Encore's Thematic Multiplex service, which has lower subscription rates than the other Starz Encore services. The reduction in revenue from Comcast Cable Holdings is the result of a lower effective per-subscriber fee under the Comcast consignment agreement and a decrease in STARZ! subscription units in the Comcast Cable Holdings system partially offset by an increase in subscription units to Starz Encore's other services. The decrease in STARZ! subscription units in these systems is due to the negative effects of changes in marketing efforts and packaging of STARZ! that Comcast implemented prior to the execution of the 2003 Comcast Affiliation Agreement. Comcast, DirecTV and Echostar Communications generated 24.2%, 23.3% and 11.0%, respectively, of Starz Encore's revenue for the year ended December 31, 2003. The 2002 increase in revenue is primarily due to a 24.7% increase in average subscription units from all forms of distribution. Subscription units grew at a faster rate than revenue primarily due to a disproportionate increase in units of Thematic Multiplex channels.

Starz Encore's average subscription units increased at a slower rate in 2003 as compared to 2002. This trend reflects the impact of the dispute with Comcast described above, as well as the impact of promotional efforts on the part of certain other DTH and cable operators to sell other premium movie services to their customers instead of Starz Encore's offerings. During the third and fourth quarters of 2003, Starz Encore entered into new affiliation agreements with certain multichannel video program distributors, including Comcast and Charter Communications. Under these new affiliation agreements, Starz Encore has obtained more favorable positioning and increased co-operative marketing commitments. Starz Encore is negotiating with its other multichannel video programming distributors to obtain similar positioning and increased co-operative marketing commitments. However, no assurance can be given that these negotiations will be successful.

Starz Encore's subscription units at December 31, 2003, 2002 and 2001 are presented in the table below. Subscription units for December 31, 2002 reflect certain minor adjustments to conform with the policy adopted by Starz Encore in 2003 of only presenting paying subscription units. Prior to 2003, Starz Encore had included certain of its subscribers receiving the services during free promotional campaigns.

	Subscriptions at December 31,		
Service Offering	**2003**	**2002**	**2001**
		(In millions)	
Thematic Multiplex	111.4	96.8	76.0
Encore	21.9	20.9	18.6
Starz!	12.3	13.2	13.0
Movieplex	5.4	5.0	6.5
	151.0	135.9	114.1

At December 31, 2003, cable, direct broadcast satellite, and other distribution represented 65.5%, 33.7% and 0.8%, respectively, of Starz Encore's total subscription units.

Starz Encore's operating expenses increased $22 million or 5.4% and $5 million or 1.2% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. Such increases are due primarily to increases in programming costs, which increased from $358 million in 2002 to $398 million in 2003. In the first quarter of 2003, Starz Encore entered into a settlement agreement regarding the payment of certain music license fees, which resulted in the reversal of a related accrual in the amount of $8 million. This reversal partially offset the programming cost increase in 2003. In 2002, Starz Encore's uplink costs decreased $5 million as a result of the completion of Starz Encore's new uplink facility. This decrease partially offset the increase in programming costs.

Starz Encore estimates that its 2004 programming expense will increase between $170 million and $190 million over amounts expensed in 2003. In addition, Starz Encore expects that programming costs in 2005 will exceed the 2004 costs by approximately $125 million to $175 million. Such increases are based on increases in the expected box office performance of movie titles that will become available to Starz Encore during these periods through its output arrangements with various movie studios. In addition, Starz Encore expects a higher cost per title due to a new rate card for movie titles under certain of its license agreements that will be effective for movies made available to Starz Encore in 2004 and thereafter and amortization of deposits previously made under the output agreements. The portion of increased programming costs that would otherwise have been eligible to be passed through under the 1997 Affiliation Agreement cannot be passed through under the 2003 Comcast Affiliation Agreement. In 2004, Starz Encore is not expected to generate increases in revenue or reductions in other costs in 2004 sufficient to fully offset these cost increases. Accordingly, these increased programming costs are expected to result in a direct reduction to Starz Encore's operating income in 2004. These estimates are subject to a number of assumptions that could change depending on the number of movie titles actually becoming available to Starz Encore and their ultimate box office performance. Accordingly, the actual amount of cost increases experienced by Starz Encore may differ from the amounts noted above.

Starz Encore's selling, general and administrative expenses decreased $58 million or 35.0% and increased $19 million or 12.7% during 2003 and 2002, respectively, as compared to the corresponding prior year. The decrease in 2003 is due primarily to a $57 million decrease in sales and marketing expenses and a $7 million decrease in bad debt expense. The decrease in sales and marketing expenses is due to the reduced number of co-operative promotions by certain multichannel television distributors discussed above and the reversal of an accrual recorded in prior years. As noted above, during the third and fourth quarters of 2003, Starz Encore entered into new affiliation agreements with certain multichannel television distributors, including Comcast and Charter Communications. Consequently, Starz Encore anticipates that its co-operative promotions and its sales and marketing expenses will increase in 2004. The higher bad debt expense in 2002 resulted from the bankruptcy filing of Adelphia Communications Corporation. The increase in SG&A expenses in 2002 is due primarily to increases in marketing support, salaries and related payroll expenses, and bad debt expense.

The decrease in Starz Encore's depreciation and amortization in 2002 is due to the adoption of Statement 142 and the resulting elimination of goodwill amortization.

Starz Encore has granted phantom stock appreciation rights to certain of its officers and employees. Compensation relating to the phantom stock appreciation rights has been recorded based upon the fair value of Starz Encore as determined by a third-party appraisal. The amount of expense associated with the phantom stock appreciation rights is generally based on the vesting of such rights and the change in the fair value of Starz Encore. Starz Encore's stock compensation decreased in 2003 as a result of a decrease in the estimated equity value of Starz Encore.

As more fully described above under "— Consolidated Operating Results — Impairment of Long-lived Assets," we recorded a $1,352 million impairment charge in 2003 related to Starz Encore, of which $1,195 million relates to enterprise-level goodwill and is included in Corporate and Other.

Discovery. Discovery's revenue increased 16.2% and 13.2% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The 2003 revenue increase was driven by a 22.8% increase in gross advertising revenue and a 11.9% increase in gross affiliate revenue. The increase in advertising revenue in 2003 was primarily due to increased audience delivery in the United States and Europe due to improved ratings and an increase in overall subscribers. Affiliate revenue increased due to the overall subscriber growth combined with subscribers moving from free preview status to paying subscribers at the developing domestic networks. The revenue increase in 2002 was due to a 10.9% increase in gross advertising revenue and a 14.0% increase in gross affiliate revenue. The growth in advertising revenue was caused by an increase in audience delivery both domestically and in Europe combined with an increase in the percentage of advertising spots that were sold. Affiliate revenue grew due to the conversion of free preview subscribers to paying subscribers at various developing networks.

Discovery's operating expenses increased 7.4% and 13.1% in 2003 and 2002, respectively. Such increases were due primarily to 11.9% and 18.5% increases in programming costs, respectively, as the company continues to invest in newer and more dramatic programming. Discovery's SG&A expenses increased 15.1% and 4.3% in 2003 and 2002, respectively. The increase in 2003 was primarily driven by increased personnel and general and administrative expense domestically, combined with increased marketing and sales related expenses. The 2002 increase was due to growth in personnel and administrative expenses combined with higher domestic sales related expenses.

Court TV. Court TV's revenue increased 30.4% and 25.4% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. The 2003 increase is due to a 26.8% increase in affiliate revenue and a 45.4% increase in advertising revenue. Advertising revenue increased as a result of a 13.0% increase in primetime ratings combined with a 7.5% increase in subscribers, which also drove the increase in affiliate revenue. The revenue increase in 2002 was due to a 3.7% and 44.2% increase in affiliate and advertising revenue, respectively. The increase in advertising revenue was mainly due to a 6.3% increase in subscribers and a 16.7% increase in primetime ratings.

Court TV's operating expenses, which are comprised primarily of programming costs, decreased 11.8% in 2003 and increased 32.9% in 2002. The increase in operating costs in 2002 was due to increased programming investments. Operating costs decreased in 2003 due to a reduction in various acquired programming costs combined with a delay in the release of certain original programming. Court TV's SG&A expenses increased 11.0% and 15.6% in 2003 and 2002, respectively. The increases in Court TV's expenses are due to the growth of the business. As a percent of revenue, SG&A expenses decreased from 49.9% in 2002 to 42.5% in 2003 as the company's size is creating more economies of scale.

GSN. GSN's revenue increased 43.4% and 43.2% for the years ended December 31, 2003 and 2002, respectively, as compared to the corresponding prior year. These increases are due to 30.8% and 30.8% increases in advertising revenue and 60.7% and 71.9% increases in net affiliate revenue. Affiliate revenue increased in both years due to 13.2% and 25.8% growth in subscribers combined with modest rate increases and a decrease in amortized subscriber launch costs. Advertising revenue increased due to an improved audience delivery, stemming from subscriber growth and improved delivery of key demographics, as well as improved sales efforts yielding an increased percentage of inventory sold to advertisers.

GSN's operating expenses, which are comprised primarily of programming costs, increased 46.7% and 14.8% in 2003 and 2002, respectively, and represented 46.6% and 45.0% of revenue. The increase in operating costs in both years is due to continued investments in programming and interactive functionality. GSN's SG&A expenses decreased 1.1% in 2003 and increased 57.5% in 2002, as compared to the corresponding prior year. As a percent of revenue, SG&A expenses decreased from 75.4% in 2002 to 52.6% in 2003. The increase in SG&A in 2002 was due primarily to increased marketing costs associated with branding the business combined with an increase in general and administrative costs related to the growth in the business.

Other. Included in the Networks Group consolidated subsidiaries is Maxide Acquisition, Inc. (d/b/a DMX Music), which is principally engaged in programming, distributing, and marketing digital and analog music services to homes and businesses. Operating results for our other Networks consolidated subsidiaries were fairly consistent during the three years presented. The higher operating loss in 2002 is due primarily to a $44 million impairment of long-lived assets related to DMX Music.

Liquidity and Capital Resources

Corporate

Although our sources of funds include our available cash balances, net cash from operating activities, and dividend and interest receipts, historically we have been dependent upon our financing activities, proceeds from asset sales and monetization of our public investment portfolio, including derivative instruments, to generate sufficient cash resources to meet our future cash requirements and planned commitments. During 2003, we issued $1,750 million principal amount of 0.75% Senior Exchangeable Debentures due 2023. Each $1,000 debenture is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. We received cash proceeds of $1,715 million upon issuance of the exchangeable debentures after related offering costs. In addition, during 2003 we (i) issued $1,000 million face amount of senior notes with an interest rate of 5.70% for net cash proceeds of approximately $990 million, (ii) received cash proceeds of $3,629 million upon the sale of assets and the settlement of financial instruments related to certain of our available-for-sale securities and (iii) received premium proceeds of $783 million from the origination of financial instruments.

Our uses of cash in recent years include investments in and advances to affiliates and debt repayments. In this regard, our investments in and advances to cost and equity method affiliates aggregated $2,593 million and $458 million, respectively, during the year ended December 31, 2003. Included in the foregoing amounts is $1,166 million invested in InterActiveCorp pursuant to contractual pre-emptive rights and $388 million invested in J-COM. Other uses of cash in 2003 include debt repayments of $3,508 million, cash paid for acquisitions of $711 million and stock repurchases of $437 million.

In November 2003, we announced our intention to reduce our outstanding consolidated debt balance by approximately $4.5 billion by the end of 2005. We initiated the debt reduction plan during the fourth quarter of 2003 by (i) redeeming $1.0 billion of floating rate notes that had been issued to Comcast, (ii) repaying $934 million of outstanding bank debt of our wholly-owned subsidiaries, and (iii) retiring approximately $578 million of other outstanding corporate indebtedness.

Our liquidity needs in 2004 include an approximate $1.0 billion reduction in our corporate indebtedness pursuant to our debt reduction plan, as well as continued funding of our existing investees as they develop and expand their businesses. We currently anticipate such cash investments to aggregate $1,400 million to $1,700 million in 2004. Included in the foregoing estimate is approximately $600 million that we invested in UGC in the first quarter of 2004 to (1) exercise our pre-emptive rights and (2) participate in UGC's rights offering and approximately $450 million that we invested in News Corp. We may also invest additional amounts in new or existing ventures. However, we are unable to quantify such investments at this time. We also expect our subsidiaries to spend approximately $340 million for capital expenditures in 2004, including $180 million by QVC, which amounts we expect to be funded by the cash flows of the respective subsidiary.

We expect that these investing and financing activities will be funded with a combination of cash on hand, cash provided by operating activities, proceeds from equity collar expirations and dispositions of non-strategic assets. In this regard, we expect to receive cash proceeds of $547 million in 2004, $1,311 million in 2005, $744 million in 2006, $389 million in 2007, $405 million in 2008, and $4,267 million thereafter upon settlement of our AFS Derivatives. The foregoing amounts assume we physically settle all derivatives and exclude any provision for income taxes. With the repayment of the bank debt of our wholly-owned subsidiaries and our acquisition of the controlling interest in QVC, we also expect to have access to the cash generated by the operating activities of our subsidiaries to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted.

Prior to the maturity of our equity collars, the terms of certain of our equity and narrow-band collars allow us to borrow funds equal to the present value of future put option proceeds (which we refer to as the PV Amount) at a rate equal to LIBOR at the time of borrowing. As of December 31, 2003, such amount aggregated approximately $3,922 million. We may also borrow the difference between the PV Amount and future put option proceeds at a rate equal to LIBOR plus our applicable credit spread at the time of borrowing. As of December 31, 2003, this amount aggregated approximately $936 million.

Subsequent to our November 2003 announcement regarding our intention to reduce our outstanding indebtedness, Standard and Poor's Securities, Inc., Fitch Investors Service, L.P. and Moody's Investors Service, Inc. each affirmed its respective rating for our senior debt at the lowest level of investment grade with a stable outlook. None of our existing indebtedness includes any covenant under which a default could occur as a result of a downgrade in our credit rating. However, any such downgrade could adversely affect our access to the public debt markets and our overall cost of future borrowings.

Based on currently available information, we expect to receive approximately $100 million in dividend and interest income during the year ended December 31, 2004. Based on current debt levels and current interest rates, we expect to make interest payments of approximately $470 million during the year ended December 31, 2004, primarily all of which relates to parent company debt.

Subsidiaries

At December 31, 2003, Starz Encore had no amounts outstanding and $325 million available pursuant to its bank credit facility. This bank credit facility contains provisions which limit additional indebtedness, sale of assets, liens, guarantees, and distributions by Starz Encore. At December 31, 2003, our subsidiary that operates the DMX Music service was not in compliance with three covenants contained in its bank loan agreement. The subsidiary and the participating banks have entered into a forbearance agreement whereby the banks have agreed to forbear from exercising certain default-related remedies against the subsidiary through March 31, 2004. The subsidiary will not be able to repay its debt when the forbearance agreement expires and is currently considering its financing options. The outstanding balance of the subsidiary's bank facility was $89 million at December 31, 2003. All other consolidated subsidiaries were in compliance with their debt covenants at December 31, 2003. Starz Encore's ability to borrow the unused capacity noted above is dependent on its continuing compliance with its covenants at the time of, and after giving effect to, a requested borrowing.

Equity Affiliates

Various partnerships and other affiliates of ours accounted for using the equity method finance a substantial portion of their acquisitions and capital expenditures through borrowings under their own credit facilities and net cash provided by their operating activities. Notwithstanding the foregoing, certain of our affiliates may require additional capital to finance their operating or investing activities. In the event our affiliates require additional financing and we fail to meet a capital call, or other commitment to provide capital or loans to a particular company, such failure may have adverse consequences to us. These consequences may include, among others, the dilution of our equity interest in that company, the forfeiture of our right to vote or exercise other rights, the right of the other stockholders or partners to force us to sell our interest at less than fair value, the forced dissolution of the company to which we have made the commitment or, in some instances, a breach of contract action for damages against us. Our ability to meet capital calls or other capital or loan commitments is subject to our ability to access cash.

UGC. UGC and its significant operating subsidiaries have incurred losses since their formation, as they have attempted to expand and develop their businesses and introduce new services.

On September 3, 2003, United Pan-Europe Communications N.V. ("UPC"), a consolidated subsidiary of UGC, completed a restructuring of its debt instruments and emerged from bankruptcy. Under the terms of the restructuring, approximately $5.4 billion of UPC's debt was exchanged for equity of UGC Europe, Inc., a new holding company of UPC. Upon consummation, UGC received approximately 65.5% of UGC Europe's equity in exchange for UPC debt securities that it owned; third-party noteholders received approximately 32.5% of UGC Europe's equity; and existing preferred and ordinary shareholders, including UGC, received 2% of UGC Europe's equity. In January 2004, UGC also amended the €3,500 million bank facility of UGC Europe to, among other things, adjust certain financial covenants which require UGC Europe to maintain specified minimum or maximum financial ratios, reschedule payment maturities, reset interest rates on various tranches of indebtedness and to permit additional borrowings in certain instances. At December 31, 2003 there was approximately €2,900 million outstanding on this facility.

On December 18, 2003, UGC completed its offer to exchange shares of its Class A common stock for 13 million outstanding shares of UGC Europe common stock that it did not already own. Upon completion of the exchange offer, UGC owned 92.7% of the outstanding shares of UGC Europe common stock. On December 19, 2003, UGC effected a "short-form" merger with UGC Europe. In the short-form merger each share of UGC Europe common stock not tendered in the exchange offer was converted into the right to receive the same consideration offered in the exchange offer, and UGC acquired the remaining 7.3% of UGC Europe.

At December 31, 2003, we owned approximately 307 million shares of UGC common stock, which represents an approximate 52% economic interest and a 90% voting interest in UGC. Due to certain voting and standstill arrangements, we were unable to exercise control of UGC, and accordingly, we used the equity method of accounting for our investment.

On January 5, 2004, we completed a transaction pursuant to which UGC's founding shareholders (the "Founders") transferred 8.2 million shares of UGC Class B common stock to us in exchange for 12.6 million shares of our Series A common stock and a cash payment of approximately $13 million. Upon closing of the exchange, the restrictions on the exercise by us of our voting power with respect to UGC terminated, and we gained voting control of UGC. Accordingly, UGC will be included in our consolidated financial position and results of operations beginning January 2004. We have entered into a new Standstill Agreement with UGC that limits our ownership of UGC common stock to 90 percent of the outstanding common stock unless we make an offer or effect another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with us.

In January 2004, we also purchased an additional 18.3 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to us pursuant to our standstill agreement with UGC. The $140 million purchase price for such shares was comprised of (1) the cancellation of indebtedness due from subsidiaries of UGC to certain of our subsidiaries in the amount of $104 million (including accrued interest) and (2) $36 million in cash.

Also in January 2004, UGC initiated a rights offering pursuant to which holders of each of UGC's Class A, Class B and Class C common stock received .28 transferable subscription rights to purchase a like class of common stock for each share of common stock owned by them on January 21, 2004. The rights offering originally expired on February 6, 2004, but was subsequently extended to February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering and expects to use such cash proceeds for working capital and general corporate purposes, including future acquisitions and repayment of outstanding indebtedness. As a holder of UGC Class A, Class B and Class C common stock, we participated in the rights offering and exercised our rights to purchase 94.1 million shares for a total cash purchase price of $565 million. Subsequent to the foregoing transactions, we own approximately 55% of UGC's common stock representing approximately 92% of the voting power of UGC's shares.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Starz Encore has entered into agreements with a number of motion picture producers which obligate Starz Encore to pay fees for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available at December 31, 2003 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2003 is payable as follows: $177 million in 2004 and $48 million in 2005.

Starz Encore has also contracted to pay fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Encore until some future date. These amounts have not been accrued at December 31, 2003. Starz Encore's estimate of amounts payable under these agreements is as follows: $558 million in 2004; $231 million in 2005; $140 million in 2006; $112 million in 2007; $108 million in 2008 and $233 million thereafter.

Starz Encore is also obligated to pay fees for films that are released by certain producers through 2010 when these films meet certain criteria described in the studio output agreements. The actual contractual amount to be paid under these agreements is not known at this time. However, such amounts are expected to be significant. Starz Encore's total film rights expense aggregated $398 million, $358 million and $354 million for the years ended December 31, 2003, 2002 and 2001, respectively.

In addition to the foregoing contractual film obligations, two motion picture studios that have output contracts with Starz Encore through 2006 and 2010, respectively, have the right to extend their contracts for an additional three years. If the first studio elects to extend its contract, Starz Encore has agreed to pay the studio $60 million within five days of the studio's notice to extend. The studio is required to exercise its option by December 31, 2004. If the second studio elects to extend its contract, Starz Encore has agreed to pay the studio a total of $190 million in four annual installments. The studio is required to exercise this option by December 31, 2007. If made, Starz Encore's payments to the studios would be amortized ratably over the term of the respective output agreement extension.

Liberty guarantees Starz Encore's film licensing obligations under certain of its studio output agreements. At December 31, 2003, Liberty's guarantee for studio output obligations for films released by such date aggregated $799 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Encore has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Encore, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantee of these obligations.

At December 31, 2003, Liberty guaranteed ¥14.4 billion ($134 million) of the bank debt of J-COM, an equity affiliate that provides broadband services in Japan. Liberty's guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2018. In addition, Liberty has agreed to fund up to ¥10 billion ($93 million at December 31, 2003) to J-COM in the event J-COM's cash flow (as defined in its bank loan agreement) does not meet certain targets. In the event J-COM meets certain performance criteria, this commitment expires on September 30, 2004.

We have also guaranteed various leases, loans, notes payable, letters of credit and other obligations (the "Guaranteed Obligations") of certain other affiliates. At December 31, 2003, the Guaranteed Obligations aggregated approximately $160 million and are not reflected in our balance sheet at December 31, 2003. Currently, we are not certain of the likelihood of being required to perform under such guarantees.

Information concerning the amount and timing of required payments under our contractual obligations is summarized below:

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(Amounts in millions)				
Long-term debt(1)	$12,034	$ 117	$3,684	$1,770	$6,463
Long-term derivative instruments	1,756	—	472	555	729
Operating lease obligations	402	82	122	78	120
Film licensing obligations	1,607	735	419	220	233
Purchase orders and other obligations	788	788	—	—	—
Other long-term liabilities	108	—	108	—	—
Total contractual payments	$16,695	$1,722	$4,805	$2,623	$7,545

(1) Includes all debt instruments, including the call option feature related to our exchangeable debentures. Amounts are stated at the face amount at maturity and may differ from the amounts stated in our consolidated balance sheet to the extent debt instruments (i) were issued at a discount or premium or (ii) are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations.

Pursuant to a tax sharing agreement between us and AT&T when we were a subsidiary of AT&T, we received a cash payment from AT&T in periods when we generated taxable losses and such taxable losses were utilized by AT&T to reduce the consolidated income tax liability. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by us in future periods, similar to a net operating loss carryforward. During the period from March 10, 1999 to December 31, 2002, we received cash payments from AT&T aggregating $555 million as payment for our taxable losses that AT&T utilized to reduce its income tax liability. In the event AT&T generates ordinary losses in 2003 or capital losses in 2003 or 2004 and is able to carry back such losses to offset taxable income previously offset by our losses, we may be required to refund as much as $333 million of these cash payments. We are currently unable to determine the likelihood that we will be required to make any refund payments to AT&T.

AT&T, as the successor to TCI, was the subject of an Internal Revenue Service ("IRS") audit for the 1993-1999 tax years. The IRS notified AT&T and us that it was proposing income adjustments and assessing certain penalties in connection with TCI's 1994 tax return. The IRS, AT&T and we have reached an agreement whereby AT&T will recognize additional income of $94 million with respect to this matter, and no penalties will be assessed. Pursuant to the tax sharing agreement between us and AT&T, we may be obligated to reimburse AT&T for any tax that is ultimately assessed as a result of this agreement. We are currently unable to estimate any such tax liability and resulting reimbursement, but we believe that any such reimbursement will not be material to our financial position.

In connection with agreements for the sale of certain assets, we typically retain liabilities that relate to events occurring prior to the 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 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.

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

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us 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. Listed below are the accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported. All of these accounting policies, estimates and assumptions, as well as the resulting impact to our financial statements, have been discussed with our audit committee.

Carrying Value of Investments. Our cost and equity method investments comprise 36.9% and 9.9%, respectively, of our total assets at December 31, 2003 and 36.2% and 18.6%, respectively, at December 31, 2002. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142 and Accounting Principles Board Opinion No. 18. These accounting principles require us to periodically evaluate our investments to determine if decreases in fair value below our cost bases are other than temporary or "nontemporary." If a decline in fair value is determined to be nontemporary, we are required to reflect such decline in our statement of operations. Nontemporary declines in fair value of our cost investments are recognized on a separate line in our statement of operations, and nontemporary declines in fair value of our equity method investments are included in share of losses of affiliates in our statement of operations.

The primary factors we consider in our determination of whether declines in fair value are nontemporary are the length of time that the fair value of the investment is below our carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, we consider the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and our intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. Fair value of our publicly traded investments is based on the market price of the security at the balance sheet date. We estimate the fair value of our other cost and equity investments using a variety of methodologies, including cash flow multiples, discounted cash flow, per subscriber values, or values of comparable public or private businesses. Impairments are calculated as the difference between our carrying value and our estimate of fair value. As our assessment of the fair value of our investments and any resulting impairment losses requires a high degree of judgment and includes significant estimates and assumptions, actual results could differ materially from our estimates and assumptions.

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

At December 31, 2003, we had no unrealized losses related to our available-for-sale securities.

Accounting for Acquisitions. We acquired QVC in 2003 and OpenTV in 2002. We account for all acquisitions of companies such as these pursuant to Statement of Financial Accounting Standards No. 141, *"Business Combinations,"* which prescribes the purchase method of accounting for business combinations. Pursuant to Statement 141, the purchase price is allocated to all of the assets and liabilities of the acquired company, based on their respective fair values. Any excess purchase price over the estimated fair value of the net assets is recorded as goodwill.

In determining fair value, we are required to make estimates and assumptions that affect the recorded amounts. To assist in this process, we often engage third party valuation specialists to value certain of the assets and liabilities. Estimates used in these valuations may include expected future cash flows (including timing thereof), market rate assumptions for contractual obligations, expected useful lives of tangible and intangible assets and appropriate discount rates. Our estimates of fair value are based on assumptions believed to be reasonable, but which are inherently uncertain.

The allocation of the purchase price to tangible and intangible assets impacts our statement of operations due to the amortization of these assets. With respect to the acquisition of QVC, the total purchase price of $7.9 billion was allocated to QVC's net assets based on their estimated fair values as determined by an independent valuation firm. QVC's more significant intangible assets included customer relationships and cable and satellite distribution rights, which are amortized over their respective useful lives, and trademarks, which have an indefinite useful life and are not amortized. We also allocated a portion of the purchase price to goodwill, which is not amortized. We estimate that amortization expense related to the amortizable intangible assets will be $312 million annually. If the allocation to QVC's amortizable assets had been 10% or $436 million more and the allocation to trademarks and goodwill had been $436 million less, our annual amortization expense would be $31 million higher.

Accounting for Derivative Instruments. We use various derivative instruments, including equity collars, narrow-band collars, put spread collars, written put and call options, interest rate swaps and foreign exchange contracts, to manage fair value and cash flow risk associated with many of our investments, some of our debt and transactions denominated in foreign currencies. We account for these derivative instruments pursuant to Statement 133 and Statement of Financial Accounting Standards No. 149 *"Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities."* Statement 133 and Statement 149 require that all derivative instruments be recorded on the balance sheet at fair value. Changes in derivatives designated as cash flow hedges are recorded in other comprehensive income. Changes in derivatives designated as fair value hedges and changes in derivatives not designated as hedges are included in realized and unrealized gains (losses) on derivative instruments in our statement of operations.

We use the Black-Scholes model to estimate the fair value of our derivative instruments that we use to manage market risk related to certain of our available-for-sale securities. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We obtain volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. We obtain a discount rate at the inception of the derivative instrument and update such rate each reporting period based on our estimate of the discount rate at which we could currently settle the derivative instrument. At December 31, 2003, the expected volatilities used to value our AFS Derivatives generally ranged from 25% to 56% and the discount rates ranged from 1.46% to 4.86%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ materially from these estimates.

Changes in our assumptions regarding (1) the discount rate and (2) the volatility rates of the underlying securities that are used in the Black-Scholes model would have the most significant impact on the valuation of our AFS Derivatives. The table below summarizes changes in these assumptions and the resulting impacts on our estimate of fair value.

Assumption	Estimated Aggregate Fair Value of AFS Derivatives	Dollar Value Change
	(Amounts in millions)	
As recorded at December 31, 2003	$2,605	
25% increase in discount rate	$2,403	$(202)
25% decrease in discount rate	$2,818	$ 213
25% increase in expected volatilities	$2,569	$ (36)
25% decrease in expected volatilities	$2,646	$ 41

Utilization of the Equity Method of Accounting for our Investment in UGC. At December 31, 2003, we owned approximately 52% of UGC's outstanding equity representing approximately 90% of the voting power of UGC's common stock. UGC's operating and financial decisions are controlled by its Board of Directors. We held substantially all of our voting interest in UGC through Class C common shares of which we were the only Class C shareholder. Under UGC's certificate of incorporation, the Class C shareholders are entitled to elect only 4 of the 12 directors. The UGC Founders had effective control to elect the remaining 8 directors through their ownership of UGC's Class B shares. Our ability to convert our Class C shares into Class B shares and to elect a majority of UGC's Board of Directors following such conversion was limited by the terms of such shares and by a standstill agreement which was in effect until June 2010. While an earlier termination of the standstill agreement was possible in the event that the UGC Founders reduce their interests in Class B shares below certain specified levels, it was outside our control to effect such an early termination. The Class C shares had approval rights over certain material transactions and related party matters which were considered protective in nature.

As a result of the aforementioned governance arrangements, we determined that our voting interest was not sufficient to allow us to control UGC and therefore apply consolidation accounting with respect to our investment in UGC. We did consider our Class C shareholder rights sufficient to exert significant influence over the financial and operating policies of UGC, and accordingly, we applied the equity method of accounting for this investment.

On January 5, 2004, we completed a transaction pursuant to which the UGC Founders transferred 8.2 million shares of UGC Class B common stock to us in exchange for 12.6 million shares of our Series A common stock and a cash payment of approximately $13 million. Upon closing of the exchange, the restrictions on our right to exercise our voting power with respect to UGC were terminated, and we gained voting control of UGC. Accordingly, we will begin consolidating UGC's results of operations and financial position in January 2004. We are currently in the process of quantifying the appropriate purchase accounting and consolidation adjustments related to UGC, and we expect the application of consolidation accounting for UGC will have a significant effect on our financial position and results of operations.

Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") also comprise a significant portion of our total assets at December 31, 2003 and 2002. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Starz Encore received an independent third party valuation in connection with its annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of Starz Encore, indicated that the fair value of this reporting unit was less than its carrying value including goodwill. This reporting unit fair value was then used to calculate an implied value of the goodwill related to Starz Encore. The $1,352 million excess of the carrying amount of the goodwill (including $1,195 million of allocated enterprise-level goodwill) over its implied value has been recorded as an impairment charge in the fourth quarter of 2003. The reduction in the value of Starz Encore reflected in the third party valuation is believed to be attributable to a number of factors. Those factors include the reliance placed in that valuation on projections by management reflecting a lower rate of revenue growth compared to earlier projections based, among other things, on the possibility that revenue growth may be negatively affected by (1) a reduction in the rate of growth in total digital video subscribers and in the subscription video on demand business as a result of cable operators' increased focus on the marketing and sale of other services, such as high speed internet access and telephony, and the uncertainty as to the success of marketing efforts by distributors of Starz Encore's services and (2) lower per subscriber rates under the new affiliation agreement with Comcast, as compared to the payments required under the 1997 AT&T Broadband Affiliation Agreement (including the programming pass through provision).

Due to the slow-down in the movie and television industries in 2002 and 2001, Ascent Media recorded long-lived asset impairment charges of $84 million and $313 million, respectively. In 2002 and 2001, we also recorded impairment charges of $99 million and $75 million, respectively, the majority of which is due to adverse economic conditions that affected our subsidiaries and affiliates in South America; and we recorded a $92 million impairment charge in 2002 related to OpenTV Corp due to slower than expected growth in the interactive television industry and cutbacks in capital expenditures by broadband service providers.

Quantitative and Qualitative Disclosures about Market Risk.

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

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity and (ii) issuing short-term variable rate debt to take advantage of historically low short-term interest rates. As of December 31, 2003, the face amount of our fixed rate debt (considering the effects of interest rate swap agreements) was $8,168 million, which had a weighted average stated interest rate of 4.68%. Our variable rate debt of $3,807 million had a weighted average interest rate of 2.31% at December 31, 2003. Had market interest rates been 100 basis points higher (representing an approximate 43% increase over our variable rate debt effective cost of borrowing) throughout the year ended December 31, 2003, we would have recognized approximately $27 million of additional interest expense. Had the estimated value of the call option obligations associated with our senior exchangeable debentures been 10% higher during the year ended December 31, 2003, we would have recognized an additional unrealized loss on derivative instruments of $99 million. For additional information regarding the impacts of changes in discount rates and volatilities on our derivative instruments, see "Critical Accounting Policies-Accounting for Derivatives."

We are exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars, put spread collars, narrow-band collars, written put and call options and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models. Equity collars provide us with a put option that gives us the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price (the "Company Put Price") at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally are equally priced at the time of origination resulting in no cash receipts or payments. Narrow-band collars are equity collars in which the put and call prices are set so that the call option has a relatively higher fair value than the put option at the time of origination. In these cases we receive cash equal to the difference between such fair values.

Put spread collars provide us and the counterparty with put and call options similar to equity collars. In addition, put spread collars provide the counterparty with a put option that gives it the right to require us to purchase the underlying securities at a price that is lower than the Company Put Price. The inclusion of the secondary put option allows us to secure a higher call option price while maintaining net zero cost to enter into the collar. However, the inclusion of the secondary put exposes us to market risk if the underlying security trades below the put spread price.

Among other factors, changes in the market prices of the securities underlying the AFS Derivatives affect the fair market value of the AFS Derivatives. The following table illustrates the impact that changes in the market price of the securities underlying Liberty's AFS Derivatives would have on the fair market value of such derivatives. Such changes in fair market value would be included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations.

	Estimated Aggregate Fair Value				
	Equity Collars(1)	Put Spread Collars	Put Options	Call Options	Total
	(Amounts in millions)				
Fair value at December 31, 2003	$3,066	$331	$(774)	$(18)	$2,605
5% increase in market prices	$2,940	$330	$(742)	$(24)	$2,504
10% increase in market prices	$2,815	$327	$(709)	$(30)	$2,403
5% decrease in market prices	$3,190	$333	$(807)	$(12)	$2,704
10% decrease in market prices	$3,315	$334	$(840)	$ (7)	$2,802

(1) Includes narrow-band collars.

At December 31, 2003, the fair value of our available-for-sale securities was $19,875 million. Had the market price of such securities been 10% lower at December 31, 2003, the aggregate value of such securities would have been $1,988 million lower resulting in an increase to unrealized losses in other comprehensive earnings. Such decrease would be partially offset by an increase in the value of our AFS Derivatives as noted in the table above. Had the stock price of our publicly traded investments accounted for using the equity method been 10% lower at December 31, 2003, there would have been no impact on the carrying value of such investments assuming that the decline in value is deemed to be temporary.

Investments in and advances to our foreign affiliates are denominated in foreign currencies. Therefore, we are exposed to changes in foreign currency exchange rates. We do not hedge the majority of our foreign currency exchange risk because of the long-term nature of our interests in foreign affiliates. However, in order to reduce our foreign currency exchange risk related to our recent investment in J-COM, we have entered into forward sale contracts with respect to ¥20,802 million ($194 million at December 31, 2003). In addition to the forward sale contracts, we entered into collar agreements with respect to ¥28,785 million ($268 million at December 31, 2003). These collar agreements have a remaining term of approximately one year, an average call price of 108 yen/U.S. dollar and an average put price of 125 yen/U.S. dollar. During 2003, we had unrealized losses of $23 million related to our yen contracts. We continually evaluate our foreign currency exposure based on current market conditions and the business environment in each country in which we operate.

From time to time we enter into total return debt swaps in connection with our purchase of our own or third-party public and private indebtedness. Under these arrangements, we direct a counterparty to purchase a specified amount of the underlying debt security for our benefit. We initially post collateral with the counterparty equal to 10% of the value of the purchased securities. We earn interest income based upon the face amount and stated interest rate of the underlying debt securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines 10%, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt security. At December 31, 2003, the aggregate purchase price of debt securities underlying total return debt swap arrangements was $314 million ($200 million of which related to our senior notes and debentures). As of such date, we had posted cash collateral equal to $35 million. In the event the fair value of the purchased debt securities were to fall to zero, we would be required to post additional cash collateral of $279 million.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be offset by the effects of interest rate movements on the underlying debt facilities. With regard to equity collars, we monitor historical market trends relative to values currently present in the market. We believe that any unrealized losses incurred with regard to equity collars and swaps would be offset by the effects of fair value changes on the underlying assets. These measures allow our management to measure the success of its use of derivative instruments and to determine when to enter into or exit from derivative instruments.

Our derivative instruments are executed with counterparties who are well known major financial institutions with high credit ratings. While we believe these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect ourselves against credit risk associated with these counterparties we generally:

- execute our derivative instruments with several different counterparties, and
- execute equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for our benefit, if the respective counterparty's credit rating for its senior secured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

Due to the importance of these derivative instruments to our risk management strategy, we actively monitor the creditworthiness of each of these counterparties. Based on our analysis, we currently consider nonperformance by any of our counterparties to be unlikely.

Our counterparty credit risk by financial institution is summarized below:

Counterparty	Aggregate Fair Value of Derivative Instruments at December 31, 2003
	(Amounts in millions)
Counterparty A	$ 998
Counterparty B	784
Counterparty C	692
Counterparty D	500
Counterparty E	316
Other	523
	$3,813

Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, principal accounting officer and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2003 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in the Company's internal controls over financial reporting that occurred during the three months ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2003 and 2002, 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, 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in note 2 to the consolidated financial statements, the Company changed its method of accounting for intangible assets in 2002 and for derivative financial instruments in 2001.

KPMG LLP

Denver, Colorado
March 12, 2004

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002

	2003	2002
	(Amounts in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,063	$ 2,170
Short-term investments (note 6)	265	107
Trade and other receivables, net	1,100	362
Inventory, net	588	—
Prepaid expenses and program rights	533	355
Derivative instruments (note 7)	543	1,165
Deferred income tax assets (note 10)	256	286
Other current assets	71	55
Total current assets	6,419	4,500
Investments in available-for-sale securities and other cost investments (note 6)	19,949	14,369
Long-term derivative instruments (note 7)	3,270	4,392
Investments in affiliates, accounted for using the equity method, and related receivables (note 5)	5,354	7,390
Property and equipment, at cost	2,076	1,219
Accumulated depreciation	(568)	(304)
	1,508	915
Intangible assets not subject to amortization (notes 2 and 4):		
Goodwill	9,437	6,812
Trademarks	2,385	—
Franchise costs	163	163
	11,985	6,975
Intangible assets subject to amortization (note 4)	5,672	1,246
Accumulated amortization	(733)	(632)
	4,939	614
Other assets, at cost, net of accumulated amortization	589	530
Total assets	$ 54,013	$ 39,685
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 431	$ 133
Accrued interest payable	153	125
Other accrued liabilities	878	308
Accrued stock compensation (note 13)	205	659
Program rights payable	177	128
Derivative instruments (note 7)	875	19
Current portion of debt (note 9)	117	655
Total current liabilities	2,836	2,027
Long-term debt (note 9)	9,482	4,316
Long-term derivative instruments (note 7)	1,756	1,469
Deferred income tax liabilities (note 10)	10,506	6,751
Other liabilities	298	189
Total liabilities	24,878	14,752
Minority interests in equity of subsidiaries	293	219
Obligation to redeem common stock (note 11)	—	32
Stockholders' equity (note 11):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued and outstanding	—	—
Series A common stock $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,669,835,166 shares at December 31, 2003 and 2,476,953,566 shares at December 31, 2002	27	25
Series B common stock $.01 par value. Authorized 400,000,000 shares; issued and outstanding 217,100,515 shares at December 31, 2003 and 212,044,128 shares at December 31, 2002	2	2
Additional paid-in capital	39,001	36,498
Accumulated other comprehensive earnings, net of taxes (note 15)	3,201	226
Unearned compensation (note 13)	(98)	—
Accumulated deficit	(13,291)	(12,069)
Total stockholders' equity	28,842	24,682
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$ 54,013	$ 39,685

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
	(Amounts in millions, except per share amounts)		
Revenue:			
Net sales from electronic retailing	$ 1,973	$ —	$ —
Programming and other services	2,055	2,084	2,059
	4,028	2,084	2,059
Operating costs and expenses:			
Cost of sales — electronic retailing services	1,258	—	—
Operating	1,298	1,077	1,103
Selling, general and administrative ("SG&A")	640	583	579
Stock compensation — SG&A (note 13)	(84)	(51)	132
Depreciation	225	193	209
Amortization	285	191	775
Impairment of long-lived assets (note 2)	1,362	275	388
	4,984	2,268	3,186
Operating loss	(956)	(184)	(1,127)
Other income (expense):			
Interest expense	(539)	(423)	(525)
Dividend and interest income	189	209	272
Share of earnings (losses) of affiliates, net (note 5)	58	(453)	(4,906)
Nontemporary declines in fair value of investments (note 6)	(29)	(6,053)	(4,101)
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	(649)	2,122	(174)
Gains (losses) on dispositions, net (notes 5 and 6)	1,128	(415)	(310)
Other, net	(52)	(4)	(11)
	106	(5,017)	(9,755)
Loss before income taxes and minority interest	(850)	(5,201)	(10,882)
Income tax benefit (expense) (note 10)	(374)	1,702	3,908
Minority interests in losses of subsidiaries	2	38	226
Loss before cumulative effect of accounting change	(1,222)	(3,461)	(6,748)
Cumulative effect of accounting change, net of taxes (note 2)	—	(1,869)	545
Net loss	$(1,222)	(5,330)	(6,203)
Loss per common share (note 2):			
Basic and diluted loss before cumulative effect of accounting change	$ (.44)	$ (1.34)	$ (2.61)
Cumulative effect of accounting change, net of taxes	—	(.72)	.21
Basic and diluted net loss	$ (.44)	$ (2.06)	$ (2.40)
Number of common shares outstanding	2,748	2,590	2,588

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)
Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
	(Amounts in millions)		
Net loss	$(1,222)	$(5,330)	$(6,203)
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	149	(101)	(357)
Unrealized holding gains (losses) arising during the period	3,454	(4,111)	(1,013)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(628)	3,598	2,694
Cumulative effect of accounting change (note 2)	—	—	(87)
Other comprehensive earnings (loss)	2,975	(614)	1,237
Comprehensive earnings (loss)	$ 1,753	$(5,944)	$(4,966)

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2003, 2002 and 2001

	Preferred Stock	Common Stock Series A	Common Stock Series B	Additional Paid-In Capital	Accumulated Other Comprehensive Earnings (Loss), Net of Taxes	Unearned Compensation	Accumulated Deficit	Total Stockholders' Equity
				(Amounts in millions)				
Balance at January 1, 2001	$—	$—	$—	$35,042	$ (397)	$ —	$ (536)	$34,109
Net loss	—	—	—	—	—	—	(6,203)	(6,203)
Other comprehensive earnings	—	—	—	—	1,237	—	—	1,237
Issuance of common stock upon consummation of Split Off Transaction (note 8)	—	24	2	(26)	—	—	—	—
Contribution from AT&T upon consummation of Split Off Transaction (note 8)	—	—	—	803	—	—	—	803
Accrual of amounts due to AT&T for taxes on deferred intercompany gains (note 8)	—	—	—	(115)	—	—	—	(115)
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes	—	—	—	(8)	—	—	—	(8)
Utilization of net operating losses of Liberty by AT&T prior to Split Off Transaction (note 8)	—	—	—	(2)	—	—	—	(2)
Stock option exercises and issuance of restricted stock prior to Split Off Transaction	—	—	—	302	—	—	—	302
Balance at December 31, 2001	—	24	2	35,996	840	—	(6,739)	30,123
Net loss	—	—	—	—	—	—	(5,330)	(5,330)
Other comprehensive loss	—	—	—	—	(614)	—	—	(614)
Issuance of common stock for acquisitions	—	—	—	195	—	—	—	195
Issuance of common stock pursuant to rights offering	—	1	—	617	—	—	—	618
Purchases of Liberty Series A common stock	—	—	—	(281)	—	—	—	(281)
Liberty Series A common stock put options, net of cash received (note 11)	—	—	—	(29)	—	—	—	(29)
Balance at December 31, 2002	—	25	2	36,498	226	—	(12,069)	24,682
Net loss	—	—	—	—	—	—	(1,222)	(1,222)
Other comprehensive earnings	—	—	—	—	2,975	—	—	2,975
Issuance of Series A common stock for acquisitions	—	2	—	2,654	—	—	—	2,656
Issuance of Series A common stock for cash	—	—	—	141	—	—	—	141
Purchases of Liberty Series A common stock	—	—	—	(437)	—	—	—	(437)
Issuance of restricted stock	—	—	—	102	—	(102)	—	—
Amortization of deferred compensation	—	—	—	—	—	4	—	4
Liberty Series A common stock put options, net of cash received (note 11)	—	—	—	37	—	—	—	37
Gain in connection with the issuance of stock of a subsidiary	—	—	—	6	—	—	—	6
Balance at December 31, 2003	$—	$27	$ 2	$39,001	$3,201	$ (98)	$(13,291)	$28,842

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
	(Amounts in millions) (see note 3)		
Cash flows from operating activities:			
Net loss	$(1,222)	$(5,330)	$(6,203)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Cumulative effect of accounting change, net of taxes	—	1,869	(545)
Depreciation and amortization	510	384	984
Impairment of long-lived assets	1,362	275	388
Stock compensation	(84)	(51)	132
Payments of stock compensation	(360)	(117)	(244)
Share of losses (earnings) of affiliates, net	(58)	453	4,906
Nontemporary decline in fair value of investments	29	6,053	4,101
Realized and unrealized losses (gains) on derivative instruments, net	649	(2,122)	174
Losses (gains) on disposition of assets, net	(1,128)	415	310
Minority interests in losses of subsidiaries	(2)	(38)	(226)
Deferred income tax expense (benefit)	312	(1,711)	(3,613)
Intergroup tax allocation	—	—	(222)
Payments from (to) AT&T pursuant to tax sharing agreement	—	(26)	166
Other noncash charges	136	32	40
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Receivables	(184)	(22)	30
Inventory	(14)	—	—
Prepaid expenses and other current assets	(141)	(77)	(148)
Payables and other current liabilities	183	14	(4)
Net cash provided (used) by operating activities	(12)	1	26
Cash flows from investing activities:			
Cash proceeds from dispositions	2,457	1,040	471
Premium proceeds from origination of derivative instruments	783	521	383
Proceeds from settlement of derivative instruments	1,172	410	366
Investments in and loans to equity affiliates	(458)	(736)	(1,031)
Investments in and loans to cost investees	(2,593)	(491)	(1,548)
Cash paid for acquisitions, net of cash acquired	(711)	(44)	(113)
Capital expended for property and equipment	(178)	(189)	(358)
Net sales of short term investments	162	148	346
Other investing activities, net	(40)	19	(5)
Net cash provided (used) by investing activities	594	678	(1,489)
Cash flows from financing activities:			
Borrowings of debt	3,793	189	1,639
Proceeds attributed to call option obligations upon issuance of senior exchangeable debentures	406	—	1,028
Repayments of debt	(3,508)	(1,110)	(1,048)
Purchases of Liberty Series A common stock	(437)	(281)	—
Proceeds from issuance of common stock	141	618	—
Payment from AT&T related to Split Off Transaction	—	—	803
Cash transfers to related parties	—	—	(157)
Other financing activities, net	(84)	(2)	(20)
Net cash provided (used) by financing activities	311	(586)	2,245
Net increase in cash and cash equivalents	893	93	782
Cash and cash equivalents at beginning of year	2,170	2,077	1,295
Cash and cash equivalents at end of year	$ 3,063	$ 2,170	$ 2,077

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Media Corporation and its controlled subsidiaries ("Liberty" or the "Company," unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty is a holding company which, through its majority and minority ownership of interests in subsidiaries and other companies, is primarily engaged in (i) electronic retailing, (ii) international cable television distribution, telephony and programming, and (iii) the production, acquisition and distribution through all available formats and media of branded entertainment, educational and informational programming and software. In addition, companies in which Liberty owns interests are engaged in, among other things, (i) interactive commerce via the Internet, television and telephone, (ii) domestic cable and satellite broadband distribution services, and (iii) wireless domestic telephony and other technology ventures. Liberty, through its affiliated companies, operates in the United States, Europe, South America and Asia.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $109 million and $45 million at December 31, 2003 and 2002, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance Beginning of Year	Additions: Charged to Expense	Additions: Acquisitions	Deductions-Write-Offs	Balance End of Year
	(Amounts in millions)				
2003	$45	$26	$62	$(24)	$109
2002	$32	$23	$ 1	$(11)	$ 45
2001	$27	$13	$—	$ (8)	$ 32

Inventory

Inventory, consisting primarily of products held for sale, is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out method.

Program Rights

Prepaid program rights are amortized on a film-by-film basis over the anticipated number of exhibitions. Committed program rights and program rights payable are recorded at the estimated cost of the programs when the film is available for airing less prepayments. These amounts are amortized on a film-by-film basis over the anticipated number of exhibitions.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale and are carried at fair value ("AFS Securities"). Unrealized holding gains and losses on AFS Securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholders' equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather then as dividends or other distributions are received, limited to the extent of the Company's investment in, advances to and commitments for the investee. If the Company's investment in the common stock of an affiliate is reduced to zero as a result of recording its share of the affiliate's net losses, and the Company holds investments in other more senior securities of the affiliate, the Company would continue to record losses from the affiliate to the extent of these additional investments. The amount of additional losses recorded would be determined based on changes in the hypothetical amount of proceeds that would be received by the Company if the affiliate were to experience a liquidation of its assets at their current book values. Prior to the Company's January 1, 2002 adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"), the Company's share of net earnings or losses of affiliates included the amortization of the difference between the Company's investment and its share of the net assets of the investee. Upon adoption of Statement 142, the portion of excess costs on equity method investments that represents goodwill ("equity method goodwill") is no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. The Company's share of net earnings or loss of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases in stockholders' equity.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be nontemporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS Securities are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, narrow-band collars, put spread collars, written put and call options, bond swaps, interest rate swaps and foreign exchange contracts to manage fair value and cash flow risk associated with many of its investments, some of its variable rate debt and transactions denominated in foreign currencies. Liberty's derivative instruments are executed with counterparties who are well known major financial institutions. While Liberty believes these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk.

Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect itself against credit risk associated with these counterparties the Company generally:

- executes its derivative instruments with several different counterparties, and
- executes equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for the Company's benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

Due to the importance of these derivative instruments to its risk management strategy, Liberty actively monitors the creditworthiness of each of its counterparties. Based on its analysis, the Company currently considers nonperformance by any of its counterparties to be unlikely.

Effective January 1, 2001, Liberty adopted Statement of Financial Accounting Standards No. 133 *"Accounting for Derivative Instruments and Hedging Activities"* ("Statement 133"). All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative is not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

During 2001 and 2002, the only derivative instruments designated as hedges were the Company's equity collars, which were designated as fair value hedges. Effective December 31, 2002, the Company elected to dedesignate its equity collars as fair value hedges. Such election had no effect on the Company's financial position at December 31, 2002 or its results of operations for the year ended December 31, 2002. Subsequent to December 31, 2002, changes in the fair value of the Company's AFS Securities that previously had been reported in earnings due to the designation of equity collars as fair value hedges are reported as a component of other comprehensive earnings (loss) on the Company's consolidated balance sheet. Changes in the fair value of the equity collars continue to be reported in earnings.

The fair value of derivative instruments is estimated using third party estimates or the Black-Scholes model. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. The Company obtains volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. A discount rate is obtained at the inception of the derivative instrument and updated each reporting period based on the Company's estimate of the discount rate at which it could currently settle the derivative instrument. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of derivative instruments may differ materially from these estimates.

The adoption of Statement 133 on January 1, 2001, resulted in a cumulative increase in net earnings of $545 million, or $0.21 per common share (after tax expense of $356 million), and an increase in other comprehensive loss of $87 million. The increase in net earnings was mostly attributable to separately recording the fair value of the embedded call option obligations associated with the Company's senior exchangeable debentures. The increase in other comprehensive loss relates primarily to changes in the fair value of the Company's warrants and options to purchase certain AFS Securities.

The Company assesses the effectiveness of equity collars by comparing changes in the intrinsic value of the equity collar to changes in the fair value of the underlying security. For derivatives designated as fair value hedges, changes in the time value of the derivatives, which are excluded from the assessment of hedge effectiveness, are recognized currently in earnings as a component of realized and unrealized gains (losses) on derivative instruments. Hedge ineffectiveness, determined in accordance with Statement 133, had no impact on earnings for the years ended December 31, 2002 and 2001.

Property and Equipment

Property and equipment, including significant improvements, is stated at cost. Depreciation is computed using the straight-line method using estimated useful lives of 3 to 20 years for support equipment and 10 to 40 years for buildings and improvements.

Intangible Assets

Effective January 1, 2002, the Company adopted 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 to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("Statement 144").

Statement 142 required the Company to perform an assessment of whether there was an indication that goodwill was impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Statement 142 requires the Company to consider equity method affiliates as separate reporting units. As a result, a portion of the Company's enterprise-level goodwill balance was allocated to various reporting units which included a single equity method investment as its only asset. For example, goodwill was allocated to a separate reporting unit which included only the Company's investment in Discovery Communications, Inc. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

The Company determined the fair value of its reporting units using independent appraisals, public trading prices and other means. 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.

In situations where the implied fair value of a reporting unit's goodwill was less than its carrying value, Liberty recorded a transition impairment charge. In total, the Company recognized a $1,869 million transitional impairment loss, net of taxes of $127 million, as the cumulative effect of a change in accounting principle in 2002. The foregoing transitional impairment loss includes an adjustment of $325 million for the Company's proportionate share of transition adjustments that its equity method affiliates recorded.

As noted above, indefinite lived intangible assets are no longer amortized. Adjusted net loss and loss per common share, exclusive of amortization expense related to goodwill, franchise costs and equity method goodwill, for periods prior to the adoption of Statement 142 are as follows (amounts in millions, except per share amounts):

	Year Ended December 31, 2001
Net loss, as reported	$(6,203)
Adjustments:	
Goodwill amortization	617
Franchise costs amortization	10
Equity method excess costs amortization	798
Income tax effect	(333)
Net loss, as adjusted	$(5,111)
Basic and diluted loss per common share, as reported	$ (2.40)
Adjustments:	
Goodwill amortization	.24
Franchise costs amortization	—
Equity method excess costs amortization	.31
Income tax effect	(.13)
Basic and diluted loss per common share, as adjusted	$ (1.98)

Amortization of intangible assets with finite useful lives was $285 million and $191 million for the years ended December 31, 2003 and 2002, respectively. Based on its current amortizable intangible assets, Liberty expects that amortization expense will be as follows for the next five years (amounts in millions):

2004	$489
2005	$468
2006	$424
2007	$395
2008	$363

Changes in the carrying amount of goodwill for the year ended December 31, 2003 are as follows:

	QVC, Inc.	Starz Encore Group LLC	Ascent Media Group	Other(3)	Total
		(Amounts in millions)			
Balance at December 31, 2002	$ —	$1,540	$327	$ 4,945	$ 6,812
2003 acquisitions(1)	3,896	—	11	77	3,984
Impairment of goodwill(2)	—	(157)	—	(1,195)	(1,352)
Other	(7)	—	—	—	(7)
Balance at December 31, 2003	$3,889	$1,383	$338	$ 3,827	$ 9,437

(1) During the year ended December 31, 2003 and excluding the acquisition of QVC, Inc. ("QVC"), Liberty completed several small acquisitions for aggregate consideration of $167 million. In connection with these

acquisitions, Liberty recorded additional goodwill of $88 million, which represents the excess of the purchase price over the estimated fair value of tangible and identifiable intangible assets acquired.

(2) Starz Encore Group LLC ("Starz Encore") received an independent third party valuation in connection with its annual year-end evaluation of the recoverability of its goodwill. The result of this valuation, which was based on a discounted cash flow analysis of projections prepared by the management of Starz Encore, indicated that the fair value of this reporting unit was less than its carrying value including goodwill. This reporting unit fair value was then used to calculate an implied value of the goodwill (including $1,195 of allocated enterprise-level goodwill) related to Starz Encore. The $1,352 million excess of the carrying amount of the goodwill over its implied value has been recorded as an impairment charge in the fourth quarter of 2003. The reduction in the value of Starz Encore reflected in the third party valuation is believed to be attributable to a number of factors. Those factors include the reliance placed in that valuation on projections by management reflecting a lower rate of revenue growth compared to earlier projections based, among other things, on the possibility that revenue growth may be negatively affected by (1) a reduction in the rate of growth in total digital video subscribers and in the subscription video on demand business as a result of cable operators' increased focus on the marketing and sale of other services, such as high speed internet access and telephony, and the uncertainty as to the success of marketing efforts by distributors of Starz Encore's services and (2) lower per subscriber rates under the new affiliation agreement with Comcast, as compared to the payments required under the 1997 AT&T Broadband Affiliation Agreement (including the programming pass through provision).

(3) 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 these allocations at December 31, 2003 (amounts in millions).

Entity	Allocable Goodwill
Discovery Communications, Inc.	$1,789
QVC	1,231
Jupiter Telecommunications Co., Ltd.	203
Jupiter Programming	127
Courtroom Television Network, LLC	125
Game Show Network, LLC	17
Other	335
	$3,827

In August 2002, Liberty purchased 38% of the common equity and 85% of the voting power of OpenTV Corp. ("OpenTV"), which when combined with Liberty's previous ownership interest in OpenTV, brought Liberty's total ownership to 41% of the equity and 86% of the voting power of OpenTV. During the period between the execution of the purchase agreement in May 2002 and the consummation of the acquisition in August 2002, OpenTV disclosed that it was lowering its revenue and cash flow projections for 2002 and extending the time before it would be cash flow positive. As a result, OpenTV wrote off all of its separately recorded goodwill. In light of the announcement by OpenTV and the adverse impact on its stock price, as well as other negative factors arising in its industry sector, Liberty determined that the goodwill initially recorded in purchase accounting ($92 million) was not recoverable. This assessment is supported by an appraisal performed by an independent third party. Accordingly, Liberty recorded an impairment charge for the entire amount of the goodwill during the third quarter of 2002.

In addition to the goodwill impairment related to OpenTV, the Company recorded 2002 impairments of $84 million related to Ascent Media and $99 million primarily related to its equity method affiliates in South America.

Impairment of Long-lived Assets

Statement 144 requires that the Company periodically review the carrying amounts of its property and equipment and its intangible assets (other than goodwill) to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment adjustment is to be recognized. Such adjustment is measured by the amount that the carrying value of such assets exceeds their fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Considerable management judgment is necessary to estimate the fair value of assets. Accordingly, actual results could vary significantly from such estimates. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

As a result of the weakness in the economy in 2001 certain subsidiaries of the Company did not meet their 2001 operating objectives and reduced their 2002 expectations. Accordingly, the subsidiaries assessed the recoverability of their property and equipment and intangible assets and determined that impairment adjustments were necessary. In addition, in the fourth quarter of 2001, a subsidiary made the decision to consolidate its operations and close certain facilities. In connection with these initiatives, the subsidiary recorded a restructuring charge related to lease cancellation fees and an additional impairment charge related to its property and equipment. All of the foregoing charges are included in impairment of long-lived assets in the Company's statement of operations.

Minority Interests

Recognition of minority interests' share of losses of subsidiaries is generally limited to the amount of such minority interests' allocable portion of the common equity of those subsidiaries. Further, the minority interests' share of losses is not recognized if the minority holders of common equity of subsidiaries have the right to cause the Company to repurchase such holders' common equity.

Foreign Currency Translation

The functional currency of the Company is the United States ("U.S.") dollar. The functional currency of the Company's foreign operations generally is the applicable local currency for each foreign subsidiary and foreign equity method investee. Assets and liabilities of foreign subsidiaries and foreign equity investees are translated at the spot rate in effect at the applicable reporting date, and the consolidated statements of operations and the Company's share of the results of operations of its foreign equity affiliates are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustment, net of applicable income taxes, is recorded as a component of accumulated other comprehensive earnings in stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses which are reflected in the accompanying consolidated statements of operations and comprehensive loss as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

Revenue Recognition

Revenue is recognized as follows:

- Revenue from electronic retail sales is recognized at the time of shipment to customers. An allowance for returned merchandise is provided as a percentage of sales based on historical experience. The total reduction in sales due to returns for the four months ended December 31, 2003 aggregated $340 million.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- Advertising revenue is recognized, net of agency commissions, in the period during which underlying advertisements are broadcast.
- Revenue from post-production services is recognized in the period the services are rendered.
- Revenue from sales and licensing of software and related service and maintenance is recognized pursuant to Statement of Position No. 97-2 *"Software Revenue Recognition."* For multiple element contracts with vendor specific objective evidence, the Company recognizes revenue for each specific element when the earnings process is complete. If vendor specific objective evidence does not exist, revenue is deferred and recognized on a straight-line basis over the term of the maintenance period.
- Cable and other distribution revenue is recognized in the period that services are rendered. Cable installation revenue is recognized in the period the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable distribution system.

Cost of Sales-Electronic Retailing

Cost of sales primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $26 million, $43 million and $43 million for the years ended December 31, 2003, 2002 and 2001, respectively. Co-operative marketing costs are recognized as advertising expense to the extent an identifiable benefit is received and fair value of the benefit can be reasonably measured. Otherwise, such costs are recorded as a reduction of revenue.

Stock Based Compensation

As more fully described in note 13, the Company has granted to its employees options, stock appreciation rights ("SARs") and options with tandem SARs to purchase shares of Liberty Series A and Series B common stock. The Company accounts for these grants pursuant to the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB Opinion No. 25"). Under these provisions, options are accounted for as fixed plan awards and no compensation expense is recognized because the exercise price is equal to the market price of the underlying common stock on the date of grant; whereas options with tandem SARs are accounted for as variable plan awards unless there is a significant disincentive for employees to exercise the SAR feature. Compensation for variable plan awards is recognized based upon the percentage of the options that are vested and the difference between the market price of the underlying common stock and the exercise price of the options at the balance sheet date. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for*

Stock-Based Compensation," ("Statement 123") to its options. Compensation expense for options with tandem SARs is the same under APB Opinion No. 25 and Statement 123.

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions, except per share amounts)		
Net loss	$(1,222)	$(5,330)	$(6,203)
Add stock compensation as determined under the intrinsic value method, net of taxes	5	—	—
Deduct stock compensation as determined under the fair value method, net of taxes	(56)	(79)	(129)
Pro forma net loss	$(1,273)	$(5,409)	$(6,332)
Basic and diluted net loss per share:			
As reported	$ (.44)	$ (2.06)	$ (2.40)
Pro forma	$ (.46)	$ (2.09)	$ (2.45)

Agreements that require Liberty to reacquire interests in subsidiaries held by officers and employees in the future are marked-to-market at the end of each reporting period with corresponding adjustments being recorded to stock compensation expense.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing net earnings (loss) by the number of common shares outstanding. The number of outstanding common shares for periods prior to the Company's August 2001 split off from AT&T Corp. is based upon the number of shares of Series A and Series B Liberty common stock issued upon consummation of the Split Off Transaction. Diluted earnings (loss) per common share presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. Excluded from diluted earnings per share for the years ended December 31, 2003, 2002 and 2001, are 84 million, 78 million and 76 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2003 presentation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Liberty considers the fair value of its derivative instruments and its assessment of nontemporary declines in value of its investments to be its most significant estimates.

Liberty holds a significant number of investments that are accounted for using the equity method. Liberty does not control the decision making process or business management practices of these affiliates. Accordingly, Liberty relies on management of these affiliates and their independent accountants to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses 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 its equity affiliates that would have a material effect on Liberty's consolidated financial statements.

(3) Supplemental Disclosures to Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 9,996	$ 424	$ 264
Net liabilities assumed	(968)	(57)	(136)
Long term debt issued	(4,000)	—	—
Deferred tax liability	(1,612)	(14)	(7)
Minority interest	(49)	(114)	(8)
Common stock issued	(2,656)	(195)	—
Cash paid for acquisitions, net of cash acquired	$ 711	$ 44	$ 113
Cash paid for interest	$ 433	$ 426	$ 451
Cash paid for income taxes	$ 62	$ —	$ 9

(4) Acquisition of Controlling Interest in QVC, Inc.

On September 17, 2003, Liberty completed its acquisition of Comcast Corporation's ("Comcast") approximate 56.5% ownership interest in QVC for an aggregate purchase price of approximately $7.9 billion. QVC markets and sells a wide variety of consumer products in the U.S. and several foreign countries primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites. Prior to the closing, Liberty owned approximately 41.7% of QVC. Subsequent to the closing, Liberty owned approximately 98% of QVC's outstanding shares, and the remaining shares of QVC are held by members of the QVC management team.

Liberty's purchase price for QVC was comprised of 217.7 million shares of Liberty's Series A common stock valued, for accounting purposes, at $2,555 million, Floating Rate Senior Notes due 2006 in an aggregate principal amount of $4,000 million (the "Floating Rate Notes") and approximately $1,358 million in cash (including acquisition costs). The foregoing value of the Series A common stock issued was based on the average closing price for such stock for the five days surrounding July 3, 2003, which was the date that Liberty announced that it had reached an agreement with Comcast to acquire Comcast's interest in QVC. Substantially all of the cash component of the purchase price was funded with the proceeds from the Company's issuance of its 3.50% Senior Notes due 2006 in the aggregate principal amount of $1.35 billion.

Subsequent to the closing, QVC is a consolidated subsidiary of Liberty. For financial reporting purposes, the acquisition is deemed to have occurred on September 1, 2003, and since that date QVC's results of operations have been consolidated with Liberty's. Prior to its acquisition of Comcast's interest, Liberty accounted for its investment in QVC using the equity method of accounting. Liberty has recorded the acquisition of QVC as a step acquisition, and accordingly, QVC's assets and liabilities have been recorded at amounts equal to (1) 56.5% of estimated fair value at the date of acquisition plus (2) 43.5% of historical cost. The $2,048 million excess of the purchase price over the estimated fair value of 56.5% of QVC's assets and liabilities combined with Liberty's historical equity method goodwill of $1,848 million has been recorded as goodwill in the accompanying condensed consolidated balance sheet. The excess of the purchase price for Comcast's interest in QVC over the estimated fair value of QVC's assets and liabilities is attributable to the following: (i) QVC's position as a market leader in its industry, (ii) QVC's ability to generate significant cash from operations and Liberty's ability to obtain access to such cash, and (iii) QVC's perceived significant international growth opportunities.

Liberty's total investment in QVC of $10,717 million is comprised of $2,804 million attributable to its historical equity method investment and $7,913 million representing the purchase price for Comcast's interest. This total investment has been allocated based on a third party appraisal to QVC's assets and liabilities as follows (amounts in millions):

Current assets, including cash and cash equivalents of $632 million	$ 1,764
Property and equipment	631
Intangible assets subject to amortization:	
Customer relationships(1)	2,336
Cable and satellite television distribution rights(1)	2,022
Intangible assets not subject to amortization:	
Trademarks	2,385
Goodwill	3,896
Other assets	269
Liabilities	(888)
Minority interest	(101)
Deferred income taxes	(1,597)
	$10,717

(1) Customer relationships are being amortized over 10-14 years. Cable and satellite television distribution rights are being amortized primarily over 14 years.

The following unaudited pro forma information for Liberty and its consolidated subsidiaries for the years ended December 31, 2003 and 2002 was prepared assuming the acquisition of QVC occurred on January 1, 2002. These pro forma amounts are not necessarily indicative of operating results that would have occurred if the QVC acquisition had occurred on January 1, 2002.

	Years Ended December 31,	
	2003	2002
	(Amounts in millions, except per share amounts)	
Revenue	$ 6,943	$ 6,465
Loss before cumulative effect of accounting change	$(1,175)	$(3,444)
Net loss	$(1,175)	$(5,313)
Loss per common share	$ (.41)	$ (1.89)

(5) Investments in Affiliates Accounted for Using the Equity Method

Liberty has various investments accounted for using the equity method. The following table includes Liberty's carrying amount and percentage ownership of the more significant investments in affiliates at December 31, 2003 and the carrying amount at December 31, 2002:

	December 31, 2003		December 31, 2002
	Percentage Ownership	Carrying Amount	Carrying Amount
	(Dollar amounts in millions)		
Discovery Communications, Inc. ("Discovery")	50%	$2,864	$2,817
Jupiter Telecommunications Co., Ltd. ("J-COM")	45%	1,331	782
QVC	*	—	2,712
UnitedGlobalCom, Inc. ("UGC")	52%	—	—
Other	various	1,159	1,079
		$5,354	$7,390

* A consolidated subsidiary since September 2003.

The following table reflects Liberty's share of earnings (losses) of affiliates including excess basis amortization in 2001 and nontemporary declines in value:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Discovery	$ 38	$ (32)	$ (293)
J-COM	20	(22)	(90)
QVC	107	154	36
UGC	—	(198)	(751)
Telewest Communications plc ("Telewest")	—	(92)	(2,538)
Cablevisión S.A. ("Cablevisión")	—	—	(476)
ASTROLINK International LLC ("Astrolink")	—	(1)	(417)
Other	(107)	(262)	(377)
	$ 58	$(453)	$(4,906)

UGC

UGC is a global broadband communications provider of video, voice and data services with operations in over 25 countries throughout the world. On January 30, 2002, the Company and UGC completed a transaction (the "UGC Transaction") pursuant to which UGC was formed to own UGC Holdings, Inc. ("UGC Holdings"). Upon consummation of the UGC Transaction, all shares of UGC Holdings common stock were exchanged for shares of common stock of UGC. In addition, the Company contributed (i) cash consideration of $200 million; (ii) a note receivable from Belmarken Holding B.V., a subsidiary of UGC Holdings, with an accreted value of $892 million and a carrying value of $496 million (the "Belmarken Loan") and (iii) Senior Notes and Senior Discount Notes of United-Pan Europe Communications N.V. ("UPC"), a subsidiary of UGC Holdings, with an aggregate carrying amount of $270 million to UGC in exchange for 281.3 million shares of UGC Class C common stock with a fair value of $1,406 million. Liberty has accounted for the UGC Transaction as the acquisition of an additional noncontrolling interest in UGC in exchange for monetary financial instruments. Accordingly, Liberty calculated a $440 million gain on the transaction based on the difference between the estimated fair value of the financial instruments and their carrying value. Due to its continuing indirect ownership in the assets contributed to UGC, Liberty limited the amount of gain it recognized to the minority shareholders' attributable share (approximately 28%) of such assets or $123 million (before deferred tax expense of $48 million).

Because Liberty had no commitment to make additional capital contributions to UGC, Liberty suspended recording its share of UGC's losses when its carrying value was reduced to zero in 2002.

At December 31, 2003, Liberty owned approximately 307 million shares of UGC common stock, or an approximate 52% economic interest and a 90% voting interest in UGC. The closing price of UGC's Class A common stock was $8.48 on December 31, 2003. Pursuant to certain voting and standstill arrangements, Liberty was unable to exercise control of UGC, and accordingly, Liberty used the equity method of accounting for its investment through December 31, 2003.

On September 3, 2003, UPC completed a restructuring of its debt instruments and emerged from bankruptcy. Under the terms of the restructuring, approximately $5.4 billion of UPC's debt was exchanged for equity of UGC Europe, Inc., a new holding company of UPC ("UGC Europe"). Upon consummation, UGC receive approximately 65.5% of UGC Europe's equity in exchange for UPC debt securities that it owned; third-party noteholders received approximately 32.5% of UGC Europe's equity; and existing preferred and ordinary shareholders, including UGC, received 2% of UGC Europe's equity.

On December 18, 2003, UGC completed its offer to exchange its Class A common stock for the outstanding shares of UGC Europe common stock that it did not already own. Upon completion of the exchange offer, UGC owned 92.7% of the outstanding shares of UGC Europe common stock. On December 19, 2003, UGC effected a "short-form" merger with UGC Europe. In the short-form merger, each share of UGC Europe common stock not tendered in the exchange offer was converted into the right to receive the same consideration offered in the exchange offer, and UGC acquired the remaining 7.3% of UGC Europe. In connection with UGC's acquisition of the minority interest in UGC Europe, Liberty calculated a $680 million gain due to the dilutive effect on its investment in UGC and the implied per share value of the exchange offer. However, as Liberty had suspended recording losses of UGC in 2002 and these suspended losses exceeded the aforementioned gain, Liberty did not recognized the gain in its consolidated financial statements.

On January 5, 2004, Liberty completed a transaction pursuant to which UGC's founding shareholders (the "Founders") transferred 8.2 million shares of UGC Class B common stock to Liberty in exchange for 12.6 million shares of Liberty Series A common stock and a cash payment of approximately $13 million. Upon closing of the transaction with the Founders, the restrictions on the exercise by Liberty of its voting power with respect to UGC terminated, and Liberty gained voting control of UGC. Accordingly, UGC will be included in Liberty's consolidated financial position and results of operations beginning January 2004. Liberty has entered into a new Standstill Agreement with UGC that limits Liberty's ownership of UGC common stock to 90 percent of the outstanding common stock unless it makes an offer or effects another transaction to acquire all outstanding UGC common stock. Under certain circumstances, such an offer or transaction would require an independent appraisal to establish the price to be paid to stockholders unaffiliated with Liberty.

In January 2004, Liberty also purchased an additional 18.3 million shares of UGC Class A common stock pursuant to certain pre-emptive rights granted to it pursuant to a standstill agreement with UGC. The $140 million purchase price for such shares was comprised of (1) the cancellation of indebtedness due from subsidiaries of UGC to certain subsidiaries of Liberty in the amount of $104 million (including accrued interest) and (2) $36 million in cash.

Also in January 2004, UGC initiated a rights offering pursuant to which holders of each of UGC's Class A, Class B and Class C common stock received .28 transferable subscription rights to purchase a like class of common stock for each share of common stock owned by them on January 21, 2004. The rights offering originally expired on February 6, 2004, but was subsequently extended to February 12, 2004. UGC received cash proceeds of approximately $1.02 billion from the rights offering and expects to use such cash proceeds for working capital and general corporate purposes, including future acquisitions and repayment of outstanding indebtedness. As a holder of UGC Class A, Class B and Class C common stock, Liberty participated in the rights offering and exercised its rights to purchase 94.1 million shares for a total cash purchase price of $565 million. Subsequent to the foregoing transactions, Liberty owns approximately 55% of UGC's common stock representing approximately 92% of the voting power of UGC's shares.

Telewest

Telewest operates cable television and telephone systems in the United Kingdom, and develops and sells a variety of television programming also in the U.K.

Telewest has disclosed that it has reached an agreement in principle, subject to certain conditions, relating to a restructuring of a significant portion of its notes and debentures. The agreement provides for the cancellation of all outstanding notes and debentures issued by Telewest and one of its subsidiaries, as well as certain other unsecured foreign exchange contracts, in exchange for new ordinary shares representing 98.5% of the issued share capital of a new holding company immediately after the restructuring. Existing shareholders will receive a 1.5% interest in the new holding company under the proposed restructuring. As a result of Telewest's proposed restructuring, which Liberty expects will reduce its ownership in Telewest to below 10%, Liberty determined that beginning in 2003 it no longer has the ability to exercise significant influence over the operations of Telewest. In addition, Liberty has removed its representatives from the Telewest board of directors. Accordingly, effective January 1, 2003, Liberty no longer accounts for its investment in Telewest using the equity method.

At December 31, 2003, Liberty's accumulated other comprehensive earnings includes $287 million (before related deferred taxes) of unrealized foreign currency losses related to its investment in the equity of Telewest. These unrealized foreign currency losses will only be recognized by Liberty upon the sale of its Telewest investment.

During the year ended December 31, 2001, Liberty determined that its investment in Telewest experienced a nontemporary decline in value. As a result, the carrying value of Telewest was adjusted to its estimated fair value, and the Company recognized a charge of $1,801 million. Such charge is included in share of losses of affiliates.

Cablevisión

Cablevisión provides cable television and high speed data services in Argentina. At December 31, 2003, the Company has a 39% economic ownership in Cablevisión. As a result of deteriorating economic conditions and the devaluation of the Argentine peso, Cablevisión recorded foreign currency translation losses of $393 million in the fourth quarter of 2001. At December 31, 2001, the Company determined that its investment in Cablevisión had experienced a nontemporary decline in value, and accordingly, recorded an impairment charge of $195 million. Such charge is included in share of losses of affiliates. The Company's share of losses in 2001, when combined with foreign currency translation losses recorded in other comprehensive loss at December 31, 2001, reduced the carrying value of its investment in Cablevisión to zero as of December 31, 2001. Included in accumulated other comprehensive earnings at December 31, 2003 is $201 million (before related deferred taxes) of unrealized foreign currency translation losses related to the Company's investment in Cablevisión. These unrealized foreign currency losses will only be recognized by Liberty upon the sale of its Cablevisión investment.

Astrolink

Astrolink originally intended to build a global telecom network using Ka-band geostationary satellites to provide broadband data communications services. Astrolink's original business plan required significant additional financing over the next several years. During the fourth quarter of 2001, two of the members of Astrolink informed Astrolink that they did not intend to provide any of Astrolink's required financing. Based on an assessment of Astrolink's remaining sources of liquidity and Astrolink's inability to obtain financing for its business plan, the Company concluded that the carrying value of its investment in Astrolink should be reduced to reflect a fair value that assumed the liquidation of Astrolink. Accordingly, the Company wrote-off all of its remaining investment in Astrolink during the fourth quarter of 2001. Including such fourth quarter amount, the Company recorded losses and charges relating to its investment in Astrolink aggregating $417 million during the year ended December 31, 2001. As Liberty had no obligation to make additional contributions to Astrolink, its share of losses in 2002 was limited to amounts advanced to Astrolink by Liberty. Liberty sold its interest in Astrolink in the fourth quarter of 2003 for cash proceeds of $5 million.

Other

In April 2002, Liberty sold its 40% interest in Telemundo Communications Group for cash proceeds of $679 million, and recognized a gain of $344 million (before related tax expense of $134 million) based upon the difference between the cash proceeds and Liberty's basis in Telemundo, including allocated goodwill of $25 million.

During the years ended December 31, 2003, 2002 and 2001, Liberty recorded nontemporary declines in fair value aggregating $84 million, $148 million and $2,396 million, respectively, related to certain of its other equity method investments. Such amounts are included in share of losses of affiliates.

(6) Investments in Available-for-Sale Securities and Other Cost Investments

Investments in available-for-sale securities, which are recorded at their respective fair market values, and other cost investments are summarized as follows:

	December 31,	
	2003	2002
	(Amounts in millions)	
The News Corporation ("News Corp.")	$ 7,633	$ 5,254
InterActiveCorp ("IAC")	4,697	2,057
Time Warner Inc. ("Time Warner")	3,080	2,243
Sprint Corporation ("Sprint PCS")	1,134	968
Motorola(1)	1,068	660
Viacom, Inc. ("Viacom")	674	619
Vivendi Universal ("Vivendi")	—	604
Other AFS equity securities	382	551
Other AFS debt securities(2)	1,207	1,302
Other cost investments and related receivables	339	218
	20,214	14,476
Less short-term investments	(265)	(107)
	$19,949	$14,369

(1) Includes $533 million of shares pledged as collateral for share borrowing arrangements at December 31, 2003.

(2) At December 31, 2003, other available-for-sale securities include $493 million of investments in certain third-party marketable debt securities held by Liberty parent and $26 million of such securities held by Liberty subsidiaries. At December 31, 2002, such investments aggregated $622 million and $49 million, respectively.

News Corp.

During the year ended December 31, 2003, Liberty increased its economic and voting interest in News Corp. Effective October 14, 2003, pursuant to a put/call arrangement with News Corp., Liberty acquired $500 million of American Depository Shares ("ADSs") for News Corp. preferred limited voting shares at $21.50 per ADR. In addition during 2003, Liberty sold certain of its News Corp. non-voting ADSs in the open market and purchased voting New Corp. ADSs in the open market. Liberty recognized a gain of $236 million (before related tax expense of $92 million) on the sale of its non-voting ADSs. Subsequent to December 31, 2003, Liberty purchased additional voting ADSs and sold additional non-voting ADSs in the open market. Subsequent to these transactions, Liberty owns 210.8 million non-voting News Corp. ADSs and 48 million voting ADSs. On a net basis, Liberty effectively exchanged 21.2 million non-voting ADSs and $693 million in cash for the 48 million voting ADSs, taking into account proceeds from sales of, and unwinding of collars on, non-voting News Corp. ADSs.

In May 2001, Liberty consummated a transaction with News Corp. whereby Liberty exchanged 70.7 million shares of Gemstar-TV Guide International, Inc. ("Gemstar") for 121.5 million News Corp. ADSs. Included in losses on dispositions in the accompanying consolidated statement of operations for the year ended December 31, 2001 is a loss of $764 million recognized in connection with this transaction based on the difference between the fair value of the securities received by Liberty and the carrying value of the

Gemstar shares. In December 2001, Liberty exchanged its remaining Gemstar shares for 28.8 million additional News Corp. ADSs and recorded an additional loss of $201 million. Liberty accounts for its investment in News Corp. as an available-for-sale security.

Vivendi and InterActiveCorp

Prior to May 7, 2002, Liberty held 74.4 million shares of IAC's common stock and shares and other equity interests in certain subsidiaries of IAC that were exchangeable for an aggregate of 79.0 million shares of IAC common stock. On an "as-converted basis," Liberty owned an approximate 20% voting interest in IAC and applied the equity method of accounting for its investment. IAC owned and operated businesses in television production, electronic retailing, ticketing operations and Internet services.

On May 7, 2002, Liberty, IAC, and Vivendi consummated the following transactions. Liberty exchanged 7.1 million shares of USANi LLC (a subsidiary of IAC) for a like number of shares of IAC common stock. Vivendi then acquired from Liberty 25 million shares of IAC common stock, approximately 38.7 million shares of USANi LLC, and Liberty's approximate 30% interest in multiThematiques S.A., together with certain liabilities with respect thereto, in exchange for 37.4 million Vivendi ordinary shares, which at the date of the transaction had an aggregate fair value of $1,013 million. Liberty recognized a loss of $817 million based on the difference between the fair value of the Vivendi shares received and the carrying value of the assets relinquished, including goodwill of $514 million which was allocated to the reporting unit holding the IAC interests. Following this exchange, IAC contributed substantially all of its entertainment assets to Vivendi Universal Entertainment ("VUE"), a partnership controlled by Vivendi, in exchange for, among other consideration, common and preferred interests in VUE. After this contribution, Liberty exchanged its remaining equity interests in subsidiaries of IAC for 33.2 million shares of common stock of IAC.

During the year ended December 31, 2003 and pursuant to contractual pre-emptive rights, Liberty acquired an aggregate 48.7 million shares of IAC for cash consideration of $1,166 million. At December 31, 2003, Liberty owns approximately 20% of IAC common stock representing an approximate 47% voting interest. However, due to certain governance arrangements which limit its ability to exert significant influence over IAC, Liberty accounts for such investment as an available-for-sale security. Liberty also owned approximately 3% of Vivendi and accounted for such investment as an available-for-sale security. During the fourth quarter of 2003, Liberty sold all of its shares of Vivendi common stock in the open market for aggregate cash proceeds of $838 million and recognized a $262 million gain (before tax expense of $102 million).

Time Warner

On January 11, 2001, America Online, Inc. completed its merger with Time Warner to form AOL Time Warner (now known as Time Warner Inc.). In connection with the merger, each share of Time Warner common stock held by Liberty was converted into 1.5 shares of an identical series of AOL Time Warner stock. Liberty recognized a $253 million gain (before deferred tax expense of $100 million) based upon the difference between the carrying value of Liberty's interest in Time Warner and the fair value of the AOL Time Warner securities received.

Viacom

On January 23, 2001, BET Holdings II, Inc. ("BET") was acquired by Viacom in exchange for shares of Class B common stock of Viacom. As a result of the merger, Liberty received 15.2 million shares of Viacom's Class B common stock (less than 1% of Viacom's common equity) in exchange for its 35% ownership interest in BET, which investment had been accounted for using the equity method. Liberty accounts for its investment in Viacom as an available-for-sale security. Liberty recognized a gain of $559 million (before deferred tax expense of $221 million) in 2001 based upon the difference between the carrying value of Liberty's interest in BET and the value of the Viacom securities received.

Nontemporary Declines in Fair Value of Investments

During the years ended December 31, 2003, 2002 and 2001, Liberty determined that certain of its AFS Securities and cost investments experienced nontemporary declines in value. The primary factors considered by Liberty in determining the timing of the recognition for the majority of these impairments was the length of time the investments traded below Liberty's cost bases and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations.

The following table identifies the realized losses attributable to each of the individual investments as follows:

Investment	Years Ended December 31, 2003	2002	2001
	(Amounts in millions)		
Time Warner	$—	$2,567	$2,052
News Corp.	—	1,393	915
Sprint PCS	—	1,077	—
Vivendi	—	409	—
Others	29	607	1,134
	$29	$6,053	$4,101

Unrealized Holdings Gains and Losses

Unrealized holding gains and losses related to investments in available-for-sale securities that are included in accumulated other comprehensive earnings are summarized below.

	December 31, 2003		December 31, 2002	
	Equity Securities	Debt Securities	Equity Securities	Debt Securities
	(Amounts in millions)			
Gross unrealized holding gains	$5,779	$212	$1,357	$77
Gross unrealized holding losses	$ —	$ —	$ (87)	$—

Management estimates that the fair market value of all of its other cost investments approximated $497 million and $342 million at December 31, 2003 and 2002, respectively. Management calculates market values of its other cost investments using a variety of approaches including multiple of cash flow, per subscriber value, or a value of comparable public or private businesses. No independent appraisals were conducted for those cost investment assets.

(7) Derivative Instruments

The Company's derivative instruments are summarized as follows:

Type of Derivative	December 31, 2003	December 31, 2002
	(Amounts in millions)	
ASSETS		
Equity collars(1)	$3,358	$ 5,014
Put spread collars	331	478
Other	124	65
Total	3,813	5,557
Less current portion	(543)	(1,165)
	$3,270	$ 4,392
LIABILITIES		
Exchangeable debenture call option obligations	$ 990	$ 536
Put options	774	929
Equity collars	293	—
Borrowed shares	533	—
Other	41	23
Total	2,631	1,488
Less current portion	(875)	(19)
	$1,756	$ 1,469

(1) Includes narrow-band collars.

Equity Collars, Narrow-Band Collars, Put Spread Collars and Put Options

The Company has entered into equity collars, narrow-band collars, put spread collars, written put options and other financial instruments to manage market risk associated with its investments in certain marketable securities. These instruments are recorded at fair value based on option pricing models. Equity collars provide the Company with a put option that gives the Company the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price (the "Company Put Price") at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally are equally priced at the time of origination resulting in no cash receipts or payments. Narrow-band collars are equity collars in which the put and call prices are set so that the call option has a relatively higher fair value than the put option at the time of origination. In these cases the Company receives cash equal to the difference between such fair values.

Put spread collars provide the Company and the counterparty with put and call options similar to equity collars. In addition, put spread collars provide the counterparty with a put option that gives it the right to require the Company to purchase the underlying securities at a price that is lower than the Company Put Price. The inclusion of the secondary put option allows the Company to secure a higher call option price while maintaining net zero cost to enter into the collar. However, the inclusion of the secondary put exposes the Company to market risk if the underlying security trades below the put spread price.

Exchangeable Debenture Call Option Obligations

Liberty has issued senior exchangeable debentures which are exchangeable for the value of a specified number of shares of Sprint PCS Group common stock, Motorola common stock, Viacom Class B common stock or Time Warner common stock, as applicable. (See note 9 for a more complete description of the exchangeable debentures.)

Prior to the adoption of Statement 133, the exchangeable debenture call option feature and the long-term debt were reported together in the Company's consolidated balance sheet. Under Statement 133, the call option feature of the exchangeable debentures is reported separately in the consolidated balance sheet at fair value. Accordingly, at January 1, 2001, Liberty recorded a transition adjustment to reflect the call option obligations at fair value ($459 million) and to recognize in net earnings the difference between the fair value of the call option obligations at issuance and the fair value of the call option obligations at January 1, 2001. Such adjustment to net earnings aggregated $757 million (before tax expense of $299 million) and is included in cumulative effect of accounting change. Changes in the fair value of the call option obligations subsequent to January 1, 2001 are recognized as unrealized gains (losses) on derivative instruments in Liberty's consolidated statements of operations.

Realized and Unrealized Gains on Derivative Instruments

Realized and unrealized gains (losses) on derivative instruments during the years ended December 31, 2003, 2002 and 2001 are comprised of the following:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Change in fair value of exchangeable debenture call option feature	$(158)	$ 784	$ 167
Change in fair value of hedged AFS Securities	—	(2,378)	(1,531)
Change in fair value of AFS derivatives	(535)	3,665	1,177
Change in fair value of other derivatives(1)	44	51	13
Total realized and unrealized gains (losses), net	$(649)	$ 2,122	$ (174)

(1) Comprised primarily of forward foreign exchange contracts and interest rate swap agreements.

(8) AT&T Ownership of Liberty

On March 9, 1999, AT&T Corp. ("AT&T") acquired Tele-Communications, Inc. ("TCI"), the former parent company of Liberty, in a merger transaction (the "AT&T Merger").

From March 9, 1999 through August 9, 2001, AT&T owned 100% of the outstanding common stock of Liberty. During such time, the AT&T Class A Liberty Media Group common stock and the AT&T Class B Liberty Media Group common stock were tracking stocks of AT&T designed to reflect the economic performance of the businesses and assets of AT&T attributed to the Liberty Media Group, which was comprised of the businesses and assets of Liberty and its subsidiaries.

Effective August 10, 2001, AT&T effected the split-off of Liberty pursuant to which Liberty's common stock was recapitalized, and each outstanding share of AT&T Liberty Media Group tracking stock was redeemed for one share of Liberty common stock (the "Split Off Transaction"). Subsequent to the Split Off Transaction which was accounted for at historical cost, Liberty is no longer a subsidiary of AT&T.

In connection with the Split Off Transaction, Liberty was also deconsolidated from AT&T for federal income tax purposes. Pursuant to an agreement entered into at the time of the AT&T Merger, AT&T was required to pay Liberty an amount equal to 35% of the amount of the net operating loss carryforward reflected in TCI's final federal income tax return that had not been used as an offset to Liberty's obligations under a tax sharing agreement and that had been, or was reasonably expected to be, utilized by AT&T. The $803 million payment was received by Liberty prior to the Split Off Transaction and has been reflected as an increase to additional paid-in-capital in the accompanying consolidated statement of stockholders' equity. In addition, certain deferred intercompany gains were includible in AT&T's taxable income as a result of the Split Off Transaction, and AT&T was entitled to reimbursement from Liberty for the resulting tax liability of approximately $115 million. Such tax liability has been reflected as a reduction in additional paid-in-capital in the accompanying consolidated statement of stockholders' equity.

(9) Long-Term Debt

Debt is summarized as follows:

	Weighted Average Interest Rate 2003	December 31, 2003	December 31, 2002
		(Amounts in millions)	
Parent company debt:			
Senior notes	4.29%	$5,627	$ 983
Senior debentures	8.33%	1,487	1,486
Senior exchangeable debentures	1.84%	2,227	865
Bank debt		—	325
		9,341	3,659
Debt of subsidiaries:			
Bank credit facilities	Various	143	1,242
Other debt, at varying rates		115	70
		258	1,312
Total debt		9,599	4,971
Less current maturities		(117)	(655)
Total long-term debt		$9,482	$4,316

Senior Notes and Debentures

In September 2003, Liberty issued $1,350 million principal amount of 3.5% senior notes due 2006 for net cash proceeds of $1,347 million. Liberty used the proceeds from this offering to partially finance its purchase of Comcast's interest in QVC. See note 4.

Also as part of the consideration for QVC, Liberty issued $4,000 million of Floating Rate Notes due 2006 to Comcast. The Floating Rate Notes accrue interest at LIBOR plus a margin. The margin on the $2,500 million principal amount of Floating Rate Notes sold by Comcast on September 24, 2003 is fixed at 1.5%. On September 24, 2003 and December 12, 2003, Liberty repurchased from subsidiaries of Comcast $500 million and $1,000 million, respectively, principal amount of the Floating Rate Notes at a purchase price equal to 100% of the principal amount plus accrued interest.

During the second quarter of 2003, Liberty issued $1,000 million principal amount of senior notes due 2013 with an interest rate of 5.70% for cash proceeds of $990 million net of offering discount and underwriting fees.

In prior years, Liberty issued $750 million of 7$^{7}/_{8}$% Senior Notes due 2009, $237.8 million of 7$^{3}/_{4}$% Senior Notes due 2009, $500 million of 8$^{1}/_{2}$% Senior Debentures due 2029, and $1 billion of 8$^{1}/_{4}$% Senior Debentures due 2030. Interest on these obligations is payable semi-annually.

The senior notes and senior debentures are stated net of an aggregate unamortized discount of $24 million and $19 million at December 31, 2003 and 2002, respectively, which is being amortized to interest expense in the accompanying consolidated statements of operations.

Senior Exchangeable Debentures

In November 1999, Liberty issued $869 million of 4% Senior Exchangeable Debentures due 2029. Each $1,000 debenture is exchangeable at the holder's option for the value of 22.9486 shares of Sprint PCS Group stock. After the date Liberty's ownership level of Sprint PCS Group common stock falls below 10%, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash. Liberty's ownership in Sprint PCS was approximately 17% at December 31, 2003. Liberty, at its option, may redeem the debentures, in whole or in part, for cash.

In February and March 2000, Liberty issued an aggregate of $810 million of 3$^{3}/_{4}$% Senior Exchangeable Debentures due 2030. Each $1,000 debenture is exchangeable at the holder's option for the value of 16.7764 shares of Sprint PCS Group stock. After the date Liberty's ownership level of Sprint PCS Group stock falls below 10%, Liberty may, at its election, pay the exchange value in cash, Sprint PCS Group stock or a combination thereof. Prior to such time, the exchange value must be paid in cash. Liberty, at its option, may redeem the debentures, in whole or in part, for cash.

In January 2001, Liberty issued $600 million of 3$^{1}/_{2}$% Senior Exchangeable Debentures due 2031. Each $1,000 debenture is exchangeable at the holder's option for the value of 36.8189 shares of Motorola common stock. Such exchange value is payable, at Liberty's option, in cash, Motorola stock or a combination thereof. On or after January 15, 2006, Liberty, at its option, may redeem the debentures, in whole or in part, for cash.

In March 2001, Liberty issued $817.7 million of 3$^{1}/_{4}$% Senior Exchangeable Debentures due 2031. Each $1,000 debenture is exchangeable at the holder's option for the value of 18.5666 shares of Viacom Class B common stock. After January 23, 2003, such exchange value is payable at Liberty's option in cash, Viacom stock or a combination thereof. Prior to such date, the exchange value must be paid in cash. On or after March 15, 2006, Liberty, at its option, may redeem the debentures, in whole or in part, for cash.

In March and April 2003, Liberty issued an aggregate principal amount of $1,750 million of 0.75% Senior Exchangeable Debentures due 2023 and received net cash proceeds of $1,715 million after expenses. Each $1,000 debenture is exchangeable at the holder's option for the value of 57.4079 shares of Time Warner common stock. Liberty may, at its election, pay the exchange value in cash, Time Warner common stock, shares of Liberty Series A common stock or a combination thereof. On or after April 5, 2008, Liberty, at its option, may redeem the debentures, in whole or in part, for shares of Time Warner common stock, cash or any combination thereof. On March 30, 2008, March 30, 2013 or March 30, 2018, each holder may cause Liberty to purchase its exchangeable debentures, and Liberty, at its election, may pay the purchase price in shares of Time Warner common stock, cash, Liberty Series A common stock, or any combination thereof.

Interest on the Company's exchangeable debentures is payable semi-annually based on the date of issuance. At maturity, all of the Company's exchangeable debentures are payable in cash.

In accordance with Statement 133, the call option feature of the exchangeable debentures is reported at fair value and separately from the long-term debt in the consolidated balance sheet.

The reported amount of the long-term debt portion of the exchangeable debentures is calculated as the difference between the face amount of the debentures and the fair value of the call option feature on the date of issuance. The fair value of the call option obligations related to the $1,750 million of exchangeable debentures issued during the year ended December 31, 2003, aggregated $406 million on the date of issuance. Accordingly, the long-term debt portion was recorded at $1,344 million. The long-term debt is accreted to its face amount over the expected term of the debenture using the effective interest method. Accretion related to all of the Company's exchangeable debentures aggregated $61 million, $7 million and $6 million during the years ended December 31, 2003, 2002 and 2001, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

Subsidiary Bank Credit Facilities

At December 31, 2003, Starz Encore had no amounts outstanding and $325 million available pursuant to its bank credit facility. The bank credit facility contains restrictive covenants which require, among other things, the maintenance of certain financial ratios, and include limitations on indebtedness, liens, encumbrances, acquisitions, dispositions, guarantees and dividends. Additionally, the bank credit facility requires the payment of fees of .2% per annum on the average unborrowed portion of the total commitment. Such fees were not significant in 2003, 2002 and 2001. Starz Encore's ability to borrow the unused capacity noted above is dependent on its continuing compliance with its covenants at the time of, and after giving effect to, a requested borrowing.

At December 31, 2003, the subsidiary of Liberty that operates the DMX Music service was not in compliance with three covenants contained in its bank loan agreement. The subsidiary and the participating banks have entered into a forbearance agreement whereby the banks have agreed to forbear from exercising certain default-related remedies against the subsidiary through March 31, 2004. The subsidiary will not be able to repay its debt when the forbearance agreement expires and is currently considering its financing options. The outstanding balance of the subsidiary's bank facility was $89 million at December 31, 2003, all of which is included in current portion of debt. All other consolidated borrowers were in compliance with their debt covenants at December 31, 2003.

Five Year Maturities

The U.S. dollar equivalent of the annual maturities of Liberty's debt for each of the next five years is as follows (amounts in millions):

2004	$ 117
2005	$ 24
2006	$3,660
2007	$ 11
2008	$1,759

Fair Value of Debt

Liberty estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Liberty for debt of the same remaining maturities. The fair value of Liberty's publicly traded debt at December 31, 2003 is as follows (amounts in millions):

Fixed rate senior notes	$2,198
Floating Rate Notes	$2,500
Senior debentures	$1,805
Senior exchangeable debentures, including call option liability	$4,368

Liberty believes that the carrying amount of its subsidiary debt approximated fair value at December 31, 2003.

A reconciliation of the carrying value of the Company's debt to the face amount at maturity is as follows (amounts in millions):

Carrying value at December 31, 2003	$ 9,599
Add:	
Unamortized issue discount on senior notes and debentures	24
Unamortized discount attributable to call option feature of exchangeable debentures	2,411
Face amount at maturity	$12,034

(10) Income Taxes

During the period from March 9, 1999 to August 10, 2001, Liberty was included in the consolidated federal income tax return of AT&T and was a party to a tax sharing agreement with AT&T (the "AT&T Tax Sharing Agreement"). Liberty calculated its respective tax liability on a separate return basis. The income tax provision for Liberty was calculated based on the increase or decrease in the tax liability of the AT&T consolidated group resulting from the inclusion of those items in the consolidated tax return of AT&T which were attributable to Liberty.

Under the AT&T Tax Sharing Agreement, Liberty received a cash payment from AT&T in periods when Liberty generated taxable losses and such taxable losses were utilized by AT&T to reduce the consolidated income tax liability. This utilization of taxable losses was accounted for by Liberty as a current federal intercompany income tax benefit. To the extent such losses were not utilized by AT&T, such amounts were available to reduce federal taxable income generated by Liberty in future periods, similar to a net operating loss carryforward, and were accounted for as a deferred federal income tax benefit. During the period from March 10, 1999 to December 31, 2002, Liberty received cash payments from AT&T aggregating $555 million as payment for Liberty's taxable losses that AT&T utilized to reduce its income tax liability. In the event AT&T generates ordinary losses in 2003 or capital losses in 2003 or 2004 and is able to carry back such losses to offset taxable income previously offset by Liberty's losses, Liberty may be required to refund as much as $333 million of these cash payments.

Income tax benefit (expense) consists of:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Current:			
Federal	$ 10	$ (7)	$ 296
State and local	(30)	(1)	(2)
Foreign	(42)	(1)	1
	(62)	(9)	295
Deferred:			
Federal	(251)	1,449	3,166
State and local	(52)	259	444
Foreign	(9)	3	3
	(312)	1,711	3,613
Income tax benefit (expense)	$(374)	$1,702	$3,908

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Computed expected tax benefit	$ 298	$1,820	$3,809
Impairment charges and amortization of goodwill not deductible for income tax purposes	(477)	(90)	(260)
Disposition of nondeductible goodwill in sales transactions	—	(185)	—
State and local income taxes, net of federal income taxes	(51)	169	289
Foreign taxes	(46)	(8)	13
Change in valuation allowance affecting tax expense	(65)	(13)	(70)
Adjustments to dividend received deduction	(21)	16	17
Effect of change in estimated state tax rate	—	—	91
Other, net	(12)	(7)	19
Income tax benefit (expense)	$(374)	$1,702	$3,908

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 2002 are presented below:

	December 31,	
	2003	2002
	(Amounts in millions)	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 830	$ 635
Accrued stock compensation	102	265
Other future deductible amounts	143	16
Deferred tax assets	1,075	916
Valuation allowance	(386)	(363)
Net deferred tax assets	689	553
Deferred tax liabilities:		
Investments	7,235	6,057
Intangible assets	2,664	120
Discount on exchangeable debentures	849	803
Other	191	38
Deferred tax liabilities	10,939	7,018
Net deferred tax liabilities	$10,250	$6,465

The Company's valuation allowance increased $23 million in 2003, including a $65 million charge to tax expense partially offset by a $42 million reversal of valuation allowance recorded in connection with acquisitions.

At December 31, 2003, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $2,304 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2004: $1 million; 2005: $14 million; 2006: $51 million; 2007: $78 million; 2008: $12 million;

2009: $64 million; 2010: $5 million; and beyond 2010: $2,079 million. Of the foregoing net operating and capital loss carryforward amount, approximately $1,281 million is subject to certain limitations and may not be currently utilized. The remaining $1,023 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

AT&T, as the successor to TCI, is the subject of an Internal Revenue Service (''IRS'') audit for the 1993-1999 tax years. The IRS notified AT&T and Liberty that it was proposing income adjustments and assessing certain penalties in connection with TCI's 1994 tax return. The IRS, AT&T and Liberty have reached an agreement whereby AT&T will recognize additional income of $94 million with respect to this matter, and no penalties will be assessed. Pursuant to the tax sharing agreement between Liberty and AT&T, Liberty may be obligated to reimburse AT&T for any tax that AT&T is ultimately assessed as a result of this agreement. Liberty is currently unable to estimate any such tax liability and resulting reimbursement, but believes that any such reimbursement will not be material to its financial position.

(11) Stockholders' Equity

Preferred Stock

Liberty's preferred stock is issuable, from time to time, with such designations, preferences and relative participating, option or other special rights, qualifications, limitations or restrictions thereof, as shall be stated and expressed in a resolution or resolutions providing for the issue of such preferred stock adopted by Liberty's Board of Directors. As of December 31, 2003, no shares of preferred stock were issued.

Common Stock

The Series A common stock has one vote per share, and the Series B common stock has ten votes per share. Each share of the Series B common stock is exchangeable at the option of the holder for one share of Series A common stock.

As of December 31, 2003, there were 56 million shares of Liberty Series A common stock and 28 million shares of Liberty Series B common stock reserved for issuance under exercise privileges of outstanding stock options and warrants.

Purchases of Common Stock

During the years ended December 31, 2003 and 2002, the Company purchased 42.3 million and 25.7 million shares of its common stock for aggregate cash consideration of $437 million and $281 million, respectively. These purchases have been accounted for as retirements of common stock and have been reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheet.

During 2002, Liberty sold put options on 7.0 million shares of its Series A common stock, 4.0 million of which were outstanding at December 31, 2002. Liberty sold another 9.3 million put options in the first quarter of 2003. All of these options expired unexercised prior to December 31, 2003. The Company accounted for these put options pursuant to EITF 00-19, *''Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock''* and recorded a net increase to additional paid-in-capital of $37 million during the year ended December 31, 2003.

(12) Transactions with Officers and Directors

Chairman's Employment Agreement

In connection with the AT&T Merger, an employment agreement between the Company's Chairman and TCI was assigned to the Company.

The Chairman's employment agreement provides for, among other things, deferral of a portion (not in excess of 40%) of the monthly compensation payable to him for all employment years commencing on or after January 1, 1993. The deferred amounts will be payable in monthly installments over a 20-year period commencing on the termination of the Chairman's employment, together with interest thereon at the rate of 8% per annum compounded annually from the date of deferral to the date of payment. The aggregate liability under this arrangement at December 31, 2003 is $1.6 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Chairman's employment agreement also provides that in the event of termination of his employment with Liberty, he will be entitled to receive 240 consecutive monthly payments equal to $15,000 increased at the rate of 12% per annum compounded annually from January 1, 1988 to the date payment commences ($82,103 per month as of December 31, 2003). Such payments would commence on the first day of the month succeeding the termination of employment. In the event of the Chairman's death, his beneficiaries would be entitled to receive the foregoing monthly payments. The aggregate liability under this arrangement at December 31, 2003 is $19.7 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Company's Chairman deferred a portion of his monthly compensation under his previous employment agreement with TCI. The Company assumed the obligation to pay that deferred compensation in connection with the AT&T Merger. The deferred obligation (together with interest at the rate of 13% per annum compounded annually), which aggregated $10.9 million at December 31, 2003 and is included in other liabilities, is payable on a monthly basis, following the occurrence of specified events, under the terms of the previous employment agreement. The rate at which interest accrues on the deferred obligation was established in 1983 pursuant to the previous employment agreement.

Other

Effective November 28, 2003, Liberty acquired all the outstanding stock of TP Investment, Inc. ("TPI"), a corporation wholly owned by TP-JCM, LLC, a limited liability company in which the sole member is the Company's Chairman. In exchange for the stock of TPI, TP-JCM received 5,281,739 shares of the Company's Series B common stock, valued in the agreement at $11.50 per share. As prescribed by the Agreement and Plan of Merger pursuant to which the acquisition was effected, that per share value equals 110% of the average of the closing sale prices of the Company's Series A Common Stock for the ten trading days ended November 28, 2003. TPI owns 10,602 shares of Series B Preferred Stock of Liberty TP Management, Inc. ("Liberty TP Management"), a subsidiary of the Company. Those shares of Series B Preferred Stock represent 12% of the voting power of Liberty TP Management. TPI also owns a 5% membership interest (representing a 50% voting interest) in Liberty TP LLC, a limited liability company which owns approximately 20.6% of the common equity and 27.2% of the voting power of Liberty TP Management. As a result of the acquisition, the Company beneficially owns all the equity and voting interests in Liberty TP Management. Liberty TP Management owns our interest in True Position and certain equity interests in Sprint PCS Group, IDT Investments, Inc. and priceline.com.

In connection with the acquisition of TPI, the Company entered into a registration rights agreement. That agreement provides for the registration by the Company under applicable federal and state securities laws, at the holder's request, of the sale of shares of the Company's Series A Common Stock issuable upon conversion of shares of the Series B Common Stock that were issued to TP-JCM.

The shares of Series B Common Stock issued to TP-JCM are subject to the Company's rights to purchase such shares pursuant to a call agreement entered into in February 1998 by the chairman and his spouse. Pursuant to the call agreement, Liberty has the right to acquire all of the Series B Liberty common stock held by the Chairman and his spouse in certain circumstances. The price of acquiring such shares is generally limited to the market price of the Series A Liberty common stock, plus a 10% premium.

During the second quarter of 2001, Liberty purchased 2,245,155 shares of common stock of On Command Corporation ("On Command"), a consolidated subsidiary of Liberty, from the Chairman and Chief Executive Officer of On Command, who at the time was also a director of Liberty, for aggregate cash consideration of $25.2 million. Such purchase price represents a per share price of $11.22. The closing market price for On Command common stock on the day the transaction was signed was $7.77. The Company has included the difference between the aggregate market value of the shares purchased and the cash consideration paid in selling, general and administrative expenses in the accompanying consolidated statement of operations.

In August 2000, On Command sold shares of its Series A Convertible Participating Preferred Stock (the "Preferred Shares") to a former director of Liberty, who was also the Chairman and Chief Executive Officer of On Command, for a $21 million note. The Preferred Shares are convertible into 236,250 shares of Liberty Series A common stock. The note is secured by the Preferred Shares or the proceeds from the sale of such shares and the former director's personal obligations under such loan are limited. The note, which matures on August 1, 2005, may not be prepaid and interest on the note accrues at a rate of 7% per annum. This arrangement has been treated as a fixed plan option for accounting purposes.

(13) Stock Options and Stock Appreciation Rights

Liberty

Effective with the Split Off Transaction, Liberty assumed from AT&T the Amended and Restated AT&T Corp. Liberty Media Group 2000 Incentive Plan and renamed it the Liberty Media Corporation 2000 Incentive Plan (the "Liberty Incentive Plan"). Grants by TCI to current and former Liberty employees of options and options with tandem SARs with respect to shares of Liberty Media Group stock prior to 1999 were assumed by Liberty under the Liberty Incentive Plan. Grants of free standing SARs made under the Plan in 2000 and in 2001 prior to the Split Off Transaction were converted into options upon assumption by Liberty.

The Liberty Incentive Plan provides for awards to be made in respect of a maximum of 160 million shares of common stock of Liberty. Awards may be made as grants of stock options, SARs, restricted shares, stock units, cash or any combination of the foregoing.

Effective February 28, 2001 (the "Effective Date"), the Company restructured the options and options with tandem SARs to purchase AT&T common stock and AT&T Liberty Media Group tracking stock (collectively the "Restructured Options") held by certain executive officers of the Company. Pursuant to such restructuring, all Restructured Options became exercisable on the Effective Date, and each executive officer was given the choice to exercise all of his Restructured Options. Each executive officer who opted to exercise his Restructured Options received consideration equal to the excess of the closing price of the subject securities on the Effective Date over the exercise price. The exercising officers received (i) a combination of cash and AT&T Liberty Media Group tracking stock for Restructured Options that were vested prior to the Effective Date and (ii) cash for Restructured Options that were previously unvested. The executive officers used the cash proceeds from the previously unvested options to purchase restricted shares of AT&T Liberty Media Group tracking stock which were converted into shares of Liberty common stock upon completion of the Split Off Transaction. Such restricted shares vested according to a schedule that corresponded to the vesting schedule applicable to the previously unvested options. As of December 31, 2003, all of the restricted shares were vested.

In addition, each executive officer was granted free-standing SARs equal to the total number of Restructured Options exercised. The free-standing SARs were tied to the value of AT&T Liberty Media Group tracking stock and will vest as to 30% in year one and 17.5% in years two through five. The free-standing SARs were granted with an exercise price of $14.70 ($15.35 in the case of Liberty Series B options) and had a fair value of $9.56 on the date of the grant. Upon completion of the Split Off Transaction, the free-standing SARs automatically converted to options to purchase Liberty Series A common stock (and in some cases Liberty Series B common stock). Prior to the Effective Date, the Restructured Options were accounted for using variable plan accounting pursuant to APB Opinion No. 25. Accordingly, the above-described transaction did not have a significant impact on Liberty's results of operations.

In addition to the SARs issued in the aforementioned option restructuring, during 2001 and pursuant to the Liberty Incentive Plan, Liberty awarded 2,104,000 options to purchase Liberty Series A common stock to certain officers and key employees of the Company. Such options have a 10-year term, exercise prices ranging from $12.40 to $16.35, vest as to 25% in each of years 2 through 5 after the date of grant, and had a weighted-average grant date fair value of $9.40.

During the first quarter of 2002, the Company reduced the exercise price of 2.3 million stock options previously granted to three executive officers from a weighted average exercise price of $21.66 to $14.70, which new exercise price exceeded the closing market price of Liberty Series A common stock on the date of repricing. As a result of such repricing, these options are now accounted for as variable plan awards. Options held by Liberty's Chairman, Chief Executive Officer and Chief Operating Officer were not included in the foregoing repricing.

In connection with the Company's Rights Offering, which expired on December 2, 2002, and pursuant to the Liberty Incentive Plan antidilution provisions, the number of shares and the applicable exercise prices of all Liberty options granted pursuant to the Liberty Incentive Plan were adjusted as of October 31, 2002, the record date for the Rights Offering. As a result of the foregoing modifications, all of the Company's outstanding options are now accounted for as variable plan awards.

During the year ended December 31, 2003, Liberty awarded 6,167,000 free standing SARs to its officers and employees. Such SARs have a 10-year term, exercise prices ranging from $11.09 to $14.33, vest as to 20% on each of the first five anniversaries of the respective grant date, and had a weighted average grant date fair value of $5.57 per share.

On December 17, 2002, shareholders of the Company approved the Liberty Media Corporation 2002 Nonemployee Director Incentive Plan (the "NDIP"). Under the NDIP, the Liberty Board of Directors (the "Liberty Board") has the full power and authority to grant eligible nonemployee directors stock options, SARs, stock options with tandem SARs, and restricted stock. Effective September 9, 2003, the Liberty Board granted each nonemployee director of Liberty 11,000 free standing SARs at an exercise price of $11.85. These options expire 10 years from the date of grant, vest on the first anniversary of the grant date and had a grant date fair value of $5.93 per share.

The estimated fair values of the options noted above are based on the Black-Scholes model and are stated in current annualized dollars on a present value basis. The key assumptions used in the model for purposes of these calculations generally include the following: (a) a discount rate equal to the 10-year Treasury rate on the date of grant; (b) a 32% volatility factor; (c) the 10-year option term; (d) the closing price of the respective common stock on the date of grant; and (e) an expected dividend rate of zero.

The following table presents the number and weighted average exercise price ("WAEP") of certain options, SARs and options with tandem SARs to purchase Liberty Series A and Series B common stock granted to certain officers, employees and directors of the Company.

	Liberty Series A Common Stock	WAEP	Liberty Series B Common Stock	WAEP
	(Numbers of options in thousands)			
Outstanding at January 1, 2001	77,516	$ 7.20	—	
Granted	21,625	$14.72	27,462	$15.35
Exercised	(50,315)	$ 7.62	—	
Canceled	(1,167)	$16.88	—	
Outstanding at December 31, 2001	47,659	$11.69	27,462	$15.35
Granted	525	$12.38	—	
Exercised	(488)	$ 3.51	—	
Canceled	(995)	$25.70	—	
Options issued in mergers	744	$34.55	—	
Adjustments pursuant to antidilution provisions	1,216		703	
Outstanding at December 31, 2002	48,661	$ 9.60	28,165	$14.96
Granted	6,233	$11.88	—	
Exercised	(323)	$ 4.68	—	
Canceled	(619)	$17.22	—	
Options issued in mergers	1,142	$78.53	—	
Outstanding at December 31, 2003	55,094	$11.23	28,165	$14.96
Exercisable at December 31, 2001	23,494	$ 4.66	—	
Exercisable at December 31, 2002	30,402	$ 6.78	8,450	$14.96
Exercisable at December 31, 2003	34,529	$ 9.12	13,378	$14.96
Vesting period	5 yrs		5 yrs	

The following table provides additional information about the Company's outstanding options to purchase Liberty Series A common stock at December 31, 2003.

No. of Outstanding Options (000's)	Range of Exercise Prices	WAEP of Outstanding Options	Weighted Average Remaining Life	No. of Exercisable Options (000's)	WAEP of Exercisable Options
17,356	$ 1.06-$4.07	$ 1.97	2.0 years	17,356	$ 1.97
1,007	$ 6.14-$9.70	$ 6.91	3.3 years	1,007	$ 6.91
34,776	$ 10.53-$14.37	$13.56	7.3 years	14,822	$13.61
470	$ 15.69-$15.95	$15.89	6.1 years	347	$15.88
1,485	$21.88-$305.25	$66.27	6.3 years	997	$66.73
55,094				34,529	

Junior Stock Plans

In July 2001, Liberty LWR, Inc. ("LWR"), a wholly-owned subsidiary of Liberty, formed Liberty Livewire Holdings, Inc. ("Livewire Holdings") as a wholly owned subsidiary. LWR then sold to certain officers and a director of Liberty an aggregate 19.872% common stock interest in Livewire Holdings with an aggregate value of $600. Liberty, LWR and these individuals entered into a stockholders agreement pursuant to which the individuals could require Liberty to purchase, after five years, all or part of their common stock interest in Livewire Holdings, in exchange for Liberty common stock, at its then-fair market value. In addition, Liberty had the right to purchase, in exchange for its common stock, their common stock interests in Livewire Holdings for fair market value at any time. Effective May 9, 2003, all of the assets of Livewire Holdings were distributed to LWR as the holder of all of the preferred stock interest in Livewire Holdings, and Livewire Holdings was dissolved.

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for $1.3 million. Such subsidiary owns an indirect interest in an entity that holds certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty common stock at the then fair market value. The shareholders agreement also provides that upon termination of employment, Liberty will repurchase the officers' interest for the original purchase price plus 6%. In addition, Liberty has the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary pursuant to the terms of the agreement. No compensation related to this stock plan was recognized by Liberty in 2003, 2002 or 2001.

In May 2000, Liberty's President and Chief Executive Officer, certain officers of a subsidiary and another individual purchased an aggregate 20% common stock interest in a subsidiary for $800,000. This subsidiary owns a 7% interest in J-COM. Liberty and the individuals entered into a shareholders agreement in which the individuals could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty common stock at its then fair market value. In addition, Liberty has the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. Liberty recognized $1 million, less than $1 million, and $4 million of compensation expense related to changes in the market value of its contingent liability to reacquire the common stock interests held by these officers during the years ended December 31, 2003, 2002 and 2001, respectively.

QVC

QVC has a qualified and nonqualified combination stock option/stock appreciation rights plan (collectively, the "Tandem Plan") for employees, officers, directors and other persons designated by the Stock Option Committee of QVC's board of directors. Under the Tandem Plan, the option price is generally equal to the fair market value, as determined by an independent appraisal, of a share of the underlying common stock of QVC at the date of the grant. The fair value of a share of QVC common stock as of the latest valuation date is $2,270. If the eligible participant elects the SAR feature of the Tandem Plan, the participant receives 75% of the excess of the fair market value of a share of QVC common stock over the exercise price of the option to which it is attached at the exercise date. The holders of a majority of the outstanding options have stated an intention not to exercise the SAR feature of the Tandem Plan. Because the exercise of the option component is more likely than the exercise of the SAR feature, compensation expense is measured based on the stock option component. As a result, QVC is applying fixed plan accounting in accordance with APB Opinion No. 25. Under the Tandem Plan, option/SAR terms are ten years from the date of grant, with options/SARs generally becoming exercisable over four years from the date of grant. At December 31, 2003, there were a total of 142,671 options outstanding, 41,632 of which were vested at a weighted average exercise price of $957.44 and 101,039 of which were unvested at a weighted average exercise price of $1,523.21.

In the fourth quarter of 2003, Liberty granted to certain officers and employees of QVC a total of 10,098,978 restricted shares of Liberty Series A common stock. Such shares vest as to 33% on each of January 1, 2005, 2006 and 2007. These shares had a grant date fair value of $10.08 per share.

Starz Encore

Starz Encore has granted Phantom Stock Appreciation Rights ("PSARS") to certain of its officers and employees, including its chief executive officer, under this plan. PSARS granted under the plan generally vest over a five year period. Substantially all of these PSARs are fully vested as of December 31, 2003. Compensation under the PSARS is computed based upon the percentage of PSARS that are vested and a formula derived from the appraised fair value of the net assets of Starz Encore. All amounts earned under the plan are payable in cash, Liberty common stock or a combination thereof. At December 31, 2003 the amount accrued pursuant to this plan was $94 million.

Effective December 27, 2002, the chief executive officer of Starz Encore elected to exercise 54% of his outstanding PSARS. In July 2003, Starz Encore satisfied the amount due the officer with a cash payment of $287 million.

Other

Certain of the Company's subsidiaries have stock based compensation plans under which employees and non-employees are granted options or similar stock based awards. Awards made under these plans vest and become exercisable over various terms. The awards and compensation recorded, if any, under these plans is not significant to Liberty.

(14) Employee Benefit Plans

Liberty is the sponsor of the Liberty Media 401(k) Savings Plan (the "Liberty 401(k) Plan"), which provides its employees and the employees of certain of its subsidiaries an opportunity for ownership in the Company and creates a retirement fund. The Liberty 401(k) Plan provides for employees to make contributions to a trust for investment in Liberty common stock, as well as several mutual funds. The Company and its subsidiaries make matching contributions to the Liberty 401(k) Plan based on a percentage of the amount contributed by employees. In addition, certain of the Company's subsidiaries have their own employee benefit plans. Employer cash contributions to all plans aggregated $16 million, $10 million and $10 million for the years ended December 31, 2003, 2002 and 2001, respectively.

(15) Other Comprehensive Earnings (Loss)

Accumulated other comprehensive earnings (loss) included in Liberty's consolidated balance sheets and consolidated statements of stockholders' equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on AFS Securities. The change in the components of accumulated other comprehensive earnings (loss), net of taxes, is summarized as follows:

	Foreign Currency Translation Adjustments	Unrealized Holding Gains (Losses) on Securities	Accumulated Other Comprehensive Earnings (Loss), Net of Taxes
	(Amounts in millions)		
Balance at January 1, 2001	$(142)	$ (255)	$ (397)
Other comprehensive earnings (loss)	(357)	1,594	1,237
Balance at December 31, 2001	(499)	1,339	840
Other comprehensive loss	(101)	(513)	(614)
Balance at December 31, 2002	(600)	826	226
Other comprehensive earnings	149	2,826	2,975
Other activity	1	(1)	—
Balance at December 31, 2003	$(450)	$3,651	$3,201

The components of other comprehensive earnings (loss) are reflected in Liberty's consolidated statements of comprehensive earnings (loss) net of taxes. The following table summarizes the tax effects related to each component of other comprehensive earnings/loss.

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	(Amounts in millions)		
Year ended December 31, 2003:			
Foreign currency translation adjustments	$ 244	$ (95)	$ 149
Unrealized holding gains on securities arising during period	5,662	(2,208)	3,454
Reclassification adjustment for gains realized in net loss	(1,030)	402	(628)
Other comprehensive earnings	$ 4,876	$(1,901)	$ 2,975
Year ended December 31, 2002:			
Foreign currency translation adjustments	$ (166)	$ 65	$ (101)
Unrealized holding losses on securities arising during period	(6,739)	2,628	(4,111)
Reclassification adjustment for losses realized in net loss	5,898	(2,300)	3,598
Other comprehensive loss	$(1,007)	$ 393	$ (614)
Year ended December 31, 2001:			
Foreign currency translation adjustments	$ (585)	$ 228	$ (357)
Unrealized holding losses on securities arising during period	(1,661)	648	(1,013)
Reclassification adjustment for losses realized in net loss	4,416	(1,722)	2,694
Cumulative effect of accounting change	(143)	56	(87)
Other comprehensive earnings	$ 2,027	$ (790)	$ 1,237

(16) Transactions with AT&T and Other Related Parties

Subsidiaries of Liberty provide services to various equity affiliates of Liberty, including Discovery Communications. Total revenue recognized by Liberty subsidiaries for such services aggregated $19 million, $6 million and $17 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Certain subsidiaries of Liberty produce and/or distribute programming and other services to cable distribution operators (including AT&T) and others pursuant to long term affiliation agreements. Charges to AT&T were based upon customary rates charged to others. Amounts included in revenue for services provided to AT&T prior to the Split Off Transaction were $210 million for the seven months ended July 31, 2001.

Prior to the Split Off Transaction, AT&T allocated certain corporate general and administrative costs to Liberty pursuant to an intergroup agreement. Management believes such allocation methods were reasonable and materially approximated the amount that Liberty would have incurred on a stand-alone basis. In addition, there were arrangements between subsidiaries of Liberty and AT&T and its other subsidiaries for satellite transponder services, marketing support, programming, and hosting services. These expenses aggregated $20 million during the seven months ended July 31, 2001 (the period immediately prior to the Split Off Transaction) and are included in operating and SG&A expenses in the accompanying consolidated statement of operations.

(17) Commitments and Contingencies

Film Rights

Starz Encore, a wholly-owned subsidiary of Liberty, provides premium video programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. Starz Encore has entered into agreements with a number of motion picture producers which obligate Starz Encore to pay fees for the rights to exhibit certain films that are released by these producers. The unpaid balance under agreements for film rights related to films that were available to Starz Encore at December 31, 2003 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2003 is payable as follows: $177 million in 2004 and $48 million in 2005.

Starz Encore has also contracted to pay fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Encore until some future date. These amounts have not been accrued at December 31, 2003. Starz Encore's estimate of amounts payable under these agreements is as follows: $558 million in 2004; $231 million in 2005; $140 million in 2006; $112 million in 2007; $108 million in 2008; and $233 million thereafter.

Starz Encore is also obligated to pay fees for films that are released by certain producers through 2010 when these films meet certain criteria described in the studio output agreements. The actual contractual amount to be paid under these agreements is not known at this time. However, such amounts are expected to be significant. Starz Encore's total film rights expense aggregated $398 million, $358 million and $354 million for the years ended December 31, 2003, 2002 and 2001, respectively.

In addition to the foregoing contractual film obligations, two motion picture studios that have output contracts with Starz Encore through 2006 and 2010, respectively, have the right to extend their contracts for an additional three years. If the first studio elects to extend its contract, Starz Encore has agreed to pay the studio $60 million within five days of the studio's notice to extend. The studio is required to exercise its option by December 31, 2004. If the second studio elects to extend its contract, Starz Encore has agreed to pay the studio a total of $190 million in four annual installments. The studio is required to exercise this option by December 31, 2007. If made, Starz Encore's payments to the studios would be amortized ratably over the term of the respective output agreement extension.

Guarantees

Liberty guarantees Starz Encore's obligations under certain of its studio output agreements. At December 31, 2003, Liberty's guarantee for obligations for films released by such date aggregated $799 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above Starz Encore has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Encore, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantee of these obligations.

At December 31, 2003, Liberty has guaranteed ¥14.4 billion ($134 million) of the bank debt of J-COM, an equity affiliate that provides broadband services in Japan. Liberty's guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2018. In addition, Liberty has agreed to fund up to an additional ¥10 billion ($93 million at December 31, 2003) to J-COM in the event J-COM's cash flow (as defined in its bank loan agreement) does not meet certain targets. In the event J-COM meets certain performance criteria, this commitment expires on September 30, 2004.

Liberty has guaranteed various leases, loans, notes payable, letters of credit and other obligations (the "Guaranteed Obligations") of certain other affiliates. At December 31, 2003, the Guaranteed Obligations aggregated approximately $160 million and are not reflected in Liberty's consolidated balance sheet at December 31, 2003. Currently, Liberty is not certain of the likelihood of being required to perform under such guarantees.

In connection with agreements for the sale of certain assets, Liberty typically retains liabilities that relate to events occurring prior to its sale, such as tax, environmental, litigation and employment matters. Liberty generally indemnifies the purchaser in the event that a third party asserts a claim against the purchaser that relates to a liability retained by Liberty. These types of indemnification guarantees typically extend for a number of years. Liberty is 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 likelihood of which cannot be determined at this time. Historically, Liberty has 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.

Operating Leases

Liberty leases business offices, has entered into pole rental and transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $74 million, $69 million and $76 million for the years ended December 31, 2003, 2002 and 2001, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2003 follows (amounts in millions):

Years ending December 31:	
2004	$ 82
2005	$ 67
2006	$ 55
2007	$ 44
2008	$ 34
Thereafter	$120

It is expected that in the normal course of business, leases that expire generally will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amount shown for 2003.

Litigation

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

(18) Information About Liberty's Operating Segments

Liberty is a holding company, which through its ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries. Each of these businesses is separately managed. Liberty has organized its businesses into four Groups based upon each businesses' services or products: Interactive Group, International Group, Networks Group and Corporate and Other. Liberty's chief operating decision maker and management team review the combined results of operations of each of these Groups (including consolidated subsidiaries and equity method affiliates), as well as the results of operations of each individual business in each Group.

Liberty identifies its reportable segments as (A) those consolidated subsidiaries that (1) represent 10% or more of its consolidated revenue, earnings before income taxes or total assets or (2) are significant to an evaluation of the performance of a Group; and (B) those equity method affiliates (1) whose share of earnings represent 10% or more of Liberty's pre-tax earnings or (2) are significant to an evaluation of the performance of a Group. The segment presentation for prior periods has been conformed to the current period segment presentation. Liberty evaluates performance and makes decisions about allocating resources to its Groups and operating segments based on financial measures such as revenue, operating cash flow, gross margin, and revenue or sales per customer equivalent. In addition, Liberty reviews non-financial measures such as average prime time rating, prime time audience delivery, subscriber growth and penetration, as appropriate.

Liberty defines operating cash flow as revenue less cost of sales, operating expenses, and selling, general and administrative expenses (excluding stock compensation). Liberty believes this is an important indicator of the operational strength and performance of its businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Liberty generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

For the year ended December 31, 2003, Liberty has identified the following consolidated subsidiaries and equity method affiliates as its reportable segments:

Interactive Group

- QVC — consolidated subsidiary that markets and sells a wide variety of consumer products in the US and several foreign countries, primarily by means of televised shopping programs on the QVC networks and via the Internet through its domestic and international websites.

- Ascent Media Group ("Ascent Media") — consolidated subsidiary that provides sound, video and ancillary post-production and distribution services to the motion picture and television industries in the United States, Europe and Asia.

International Group

- UGC — 52% owned equity method affiliate that provides broadband communications services, including video, voice and data with operations in over 25 countries.
- J-COM — 45% owned equity method affiliate that provides broadband communications services in Japan.
- Jupiter Programming Co., Ltd. ("JPC") — 50% owned equity method affiliate that provides cable and satellite television programming in Japan.

Networks Group

- Starz Encore — consolidated subsidiary that provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States.
- Discovery — 50% owned equity method affiliate that provides original and purchased cable television programming in the U.S. and over 150 other countries.
- Courtroom Television Network, LLC ("Court TV") — 50% owned equity method affiliate that operates a basic cable network that provides informative and entertaining programming based on the American legal system.
- Game Show Network, LLC ("GSN") — 50% owned equity method affiliate that operates a basic cable network dedicated to the world of games, game playing and game shows.

Liberty's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments that are also consolidated subsidiaries are the same as those described in the summary of significant policies.

The amounts presented below represent 100% of each business' revenue, operating cash flow and operating income. These amounts are combined on an unconsolidated basis and are then adjusted to remove the effects of the equity method investments to arrive at the consolidated balances for each group. This presentation is designed to reflect the manner in which management reviews the operating performance of individual businesses within each group regardless of whether the investment is accounted for as a consolidated subsidiary or an equity investment. It should be noted, however, that this presentation is not in accordance with GAAP since the results of equity method investments are required to be reported on a net basis. Further, we could not, among other things, cause any noncontrolled affiliate to distribute to us our proportionate share of the revenue or operating cash flow of such affiliate.

Performance Measures

	2003 Revenue	2003 Operating Cash Flow	2002 Revenue	2002 Operating Cash Flow	2001 Revenue	2001 Operating Cash Flow
	Years Ended December 31, (Amounts in millions)					
Interactive Group						
QVC	$ 4,889	$ 1,013	$ 4,362	$ 861	$ 3,894	$ 722
Ascent Media	508	75	538	87	593	89
Other consolidated subsidiaries	317	(13)	256	(26)	239	(13)
Equity method affiliates	88	(20)	138	(91)	—	—
Combined Interactive Group	5,802	1,055	5,294	831	4,726	798
Eliminate equity method affiliates	(3,004)	(561)	(4,500)	(770)	(3,894)	(722)
Consolidated Interactive Group	2,798	494	794	61	832	76
International Group						
Consolidated subsidiaries	$ 107	$ 27	$ 100	$ 26	$ 138	$ 42
UGC	1,892	629	1,515	296	1,562	(191)
J-COM	1,233	429	931	211	629	57
JPC	412	54	274	32	207	19
Other equity method affiliates	614	91	568	87	854	61
Combined International Group	4,258	1,230	3,388	652	3,390	(12)
Eliminate equity method affiliates	(4,151)	(1,203)	(3,288)	(626)	(3,252)	54
Consolidated International Group	107	27	100	26	138	42
Networks Group						
Starz Encore	$ 906	$ 368	$ 945	$ 371	$ 863	$ 313
Discovery	1,995	508	1,717	379	1,517	286
Court TV	193	44	148	(1)	118	(3)
GSN	76	1	53	(11)	37	(17)
Other consolidated subsidiaries	208	13	200	3	167	14
Combined Networks Group	3,378	934	3,063	741	2,702	593
Eliminate equity method affiliates	(2,264)	(553)	(1,918)	(367)	(1,672)	(266)
Consolidated Networks Group	1,114	381	1,145	374	1,030	327
Corporate and Other	9	(70)	45	(37)	59	(68)
Consolidated Liberty	$ 4,028	$ 832	$ 2,084	$ 424	$ 2,059	$ 377

Balance Sheet Information

	December 31,			
	2003		2002	
	Total Assets	Investments in Affiliates	Total Assets	Investments in Affiliates
	(Amounts in millions)			
Interactive Group				
QVC	$ 13,806	$ 77	$ 2,886	$ —
Ascent Media	741	4	778	4
Other consolidated subsidiaries	592	—	704	—
Equity method affiliates	548	—	176	—
Combined Interactive Group	15,687	81	4,544	4
Eliminate equity method affiliates	(548)	—	(3,062)	—
Consolidated Interactive Group	15,139	81	1,482	4
International Group				
Consolidated subsidiaries	$ 406	$ —	$ 388	$ —
UGC	7,100	95	5,932	154
J-COM	3,926	7	3,485	3
JPC	192	24	132	12
Other equity method affiliates	1,756	12	1,184	7
Combined International Group	13,380	138	11,121	176
Eliminate equity method affiliates	(12,974)	(138)	(10,733)	(176)
Consolidated International Group	406	—	388	—
Networks Group				
Starz Encore	$ 2,745	$ 50	$ 3,090	$ 141
Discovery	3,143	80	3,068	65
Court TV	272	—	248	—
GSN	101	—	95	—
Other consolidated subsidiaries	228	1	236	3
Combined Networks Group	6,489	131	6,737	209
Eliminate equity method affiliates	(3,516)	(80)	(3,411)	(65)
Consolidated Networks Group	2,973	51	3,326	144
Corporate and Other	35,495	5,222	34,489	7,242
Consolidated Liberty	$ 54,013	$5,354	$ 39,685	$7,390

The following table provides a reconciliation of segment operating cash flow to earnings before income taxes:

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
Consolidated segment operating cash flow	$ 832	$ 424	$ 377
Stock compensation	84	51	(132)
Depreciation and amortization	(510)	(384)	(984)
Impairment of long-lived assets	(1,362)	(275)	(388)
Interest expense	(539)	(423)	(525)
Share of earnings (losses) of affiliates	58	(453)	(4,906)
Nontemporary declines in fair value of investments	(29)	(6,053)	(4,101)
Realized and unrealized gains (losses) on derivative instruments, net	(649)	2,122	(174)
Gains (losses) on dispositions, net	1,128	(415)	(310)
Other, net	137	205	261
Loss before income taxes and minority interest	$ (850)	$(5,201)	$(10,882)

Revenue by Geographic Area

	Years Ended December 31,		
	2003	2002	2001
	(Amounts in millions)		
United States	$3,343	$1,859	$1,811
Foreign countries	685	225	248
Consolidated Liberty	$4,028	$2,084	$2,059

Long-Lived Assets by Geographic Area

	December 31,	
	2003	2002
	(Amounts in millions)	
United States	$15,290	$5,278
Foreign countries	1,419	256
Consolidated Liberty	$16,709	$5,534

(19) Quarterly Financial Information (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(Amounts in millions, except per share amounts)			
2003:				
Revenue	$ 505	$ 500	$905	$ 2,118
Operating income (loss)	$ 10	$ (46)	$147	$(1,067)
Net earnings (loss)	$ 132	$ (464)	$ 41	$ (931)
Basic and diluted net earnings (loss) per common share	$ .05	$ (.17)	$ .02	$ (.32)
2002:				
Revenue	$ 513	$ 510	$525	$ 536
Operating income (loss)	$ 52	$ 13	$(39)	$ (210)
Earnings (loss) before cumulative effect of accounting change	$ 306	$(3,097)	$ 22	$ (692)
Net earnings (loss)	$(1,563)	$(3,097)	$ 22	$ (692)
Basic and diluted earnings (loss) before cumulative effect of accounting change per common share	$ .12	$ (1.20)	$ .01	$ (.26)
Basic and diluted net earnings (loss) per common share	$ (.60)	$ (1.20)	$ .01	$ (.26)

(20) Subsequent Event

Liberty's Board of Directors has approved a resolution authorizing the Company to take the necessary actions to effect the spin-off of assets principally comprised of the International Group as a tax free distribution to its shareholders. The completion of this transaction is subject to, among other things, a final determination of the assets to be included in the spin-off, the receipt of a favorable tax opinion and regulatory and other third party approvals. Upon completion of this transaction, the International Group will be a separate publicly traded company. This transaction is expected to be accounted for at historical cost due to the pro rata nature of the distribution.

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CORPORATE DATA

Board of Directors

John C. Malone
Robert R. Bennett
Donne F. Fisher
Paul A. Gould
Gary S. Howard
David E. Rapley
M. LaVoy Robison
Larry E. Romrell

Executive Committee

Robert R. Bennett
Paul A. Gould
John C. Malone

Compensation Committee

Donne F. Fisher
Paul A. Gould
John C. Malone
Larry E. Romrell

Audit Committee

Donne F. Fisher
Paul A. Gould
David E. Rapley
M. LaVoy Robison

Incentive Plan Committee

Donne F. Fisher
Paul A. Gould

Section 16 Exemption Committee

Donne F. Fisher
Paul A. Gould

Officers

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Chairman of the Board

Robert R. Bennett
President and CEO

Mark D. Carleton
Senior Vice President

Miranda Curtis
Senior Vice President

William R. Fitzgerald
Senior Vice President

David J. A. Flowers
Senior Vice President
and Treasurer

David B. Koff
Senior Vice President

Elizabeth M. Markowski
Senior Vice President

Albert E. Rosenthaler
Senior Vice President

Christopher W. Shean
Senior Vice President
and Controller

Charles Y. Tanabe
Senior Vice President
Secretary
and General Counsel

Tony G. Werner
Senior Vice President
and Chief Technology Officer

Michael P. Zeisser
Senior Vice President

Corporate Headquarters

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Stock Information

Liberty Media Corporation Series A and Series B Common Stock (ticker symbols L and LMC.B) are listed on the New York Stock Exchange

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LMC.B—530718 20 4

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Liberty on the Internet

Visit Liberty's web site at www.libertymedia.com

Financial Statements

Liberty Media Corporation financial statements are filed with the Securities and Exchange Commission. Copies of these financial statements can be obtained from the Transfer Agent or through Liberty's web site.

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