LIBERTY

Liberty Media Corporation
Annual Report
April 2005

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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 differ 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 Corporation, including the most recently filed Form 10-K of Liberty Media Corporation; 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 key strategic relationships with partners and joint ventures; competitor responses to Liberty Media Corporation'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 Corporation 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 Corporation'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 Corporation 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 these 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

Liberty enjoyed another very successful year in 2004. In addition to reporting strong operating results for our largest businesses, we continued to simplify our structure and create new opportunities for our shareholders to benefit from the growth potential of our businesses.

Since Liberty's inception 14 years ago, our overriding objective has been clear and consistent: to maximize the value of our shares. Over the years, we have accomplished this by executing three core strategies: owning businesses with significant built-in growth potential; making timely acquisitions that enable us to build on that growth potential and create new business lines; and actively managing our capital structure. In 2004, we introduced a fourth strategy of disaggregating businesses by distributing them to our shareholders. While this technique actually reduces the value of our shares, it also increases the wealth of our shareholders by giving them holdings in two companies instead of one.

In June 2004, we demonstrated the value of this strategy by distributing all of our holdings in Liberty Media International, Inc. (LMI) to the Liberty shareholders. LMI owns all of the international cable operations and related programming businesses that once constituted our International Group. With its own stock, a separate balance sheet, an aggressive growth strategy and a focused management team, LMI is now a more effective creator of shareholder value than it would have been as a unit of Liberty. Liberty shareholders who retained their LMI shares at the end of 2004 have realized a 16 percent increase in their combined Liberty and LMI holdings since we announced this transaction in May 2004, including a 25 percent increase in the LMI stock. While this appreciation reflects the fact that the full value of LMI's assets was not recognized in Liberty's stock, it also demonstrates that the independent LMI is a stronger entity—one that can structure its balance sheet in an optimal way for equity returns, while utilizing its stock and financial resources to make value-added acquisitions. As a result, LMI, which was already one of the largest broadband companies in the world, is poised to become an even larger and more efficient organization.

In March 2005, we announced our plan to distribute another company to our shareholders. This company, to be called Discovery Holding Company (DHC), will own our interests in Ascent Media and Discovery Communications. As in the case of LMI, we believe that our disaggregation of DHC will enhance the value of the current Liberty stock by giving our owners shares in another company that will be in a better position to take advantage of growth opportunities and to reflect its own underlying value. We expect to complete the DHC distribution in the second quarter of 2005.

Following the DHC transaction, Liberty will be made up of four large, strategic assets—QVC, Starz Entertainment and our holdings in News Corporation and InterActiveCorp—as well as a large portfolio of liquid assets and a group of smaller, developmental businesses. Our large strategic assets and the portfolio of liquid assets will constitute approximately 73 percent and 21 percent of our overall value, respectively.

Our core strategic holdings have all or most of the following things in common: The businesses are leaders in their areas of focus; have outstanding management teams; possess high growth rates; and generate free cash flow. Once the DHC transaction is complete, our energies will be focused on three primary initiatives: maximizing the growth potential of the remaining businesses; seeking attractive acquisition and investment opportunities so we can more effectively deploy our significant liquid resources; and continuing to assess the merits of additional disaggregation possibilities.

QVC, Inc. QVC is the clear global leader in televised home shopping. It is also our largest asset and our primary source of cash flow. QVC had another very strong year in 2004, with results driven by solid growth in its domestic business, as well as by continued superior performance in its three international businesses. QVC reported annual consolidated revenue of $5.7 billion, a 16 percent increase, and consolidated operating cash flow (OCF[1]) of $1.2 billion, an increase of 21 percent over the prior year. The domestic business turned in 8 percent revenue growth and 10 percent OCF growth, and the international businesses, which include operations in the United Kingdom, Germany and Japan, generated 48 percent revenue growth and 102 percent OCF growth. During the year, QVC aired more than 50,000 products and shipped more than 138 million units to customers—that is more than 260 units per minute. The call centers handled more than 174 million calls. These statistics demonstrate the extraordinary power of a broadly distributed television channel, focused on value and

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1 Liberty defines operating cash flow (OCF) as revenue less cost of sales; operating expenses; and selling, general and administrative expenses (excluding stock and other equity-based compensation). OCF, as defined by Liberty, excludes depreciation and amortization, stock and other equity-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Liberty believes OCF 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. Because OCF is used as a measure of operating performance, Liberty views operating income as the most directly comparable GAAP measure. OCF is not meant to replace or supersede operating income or any other GAAP measure, but rather to supplement the information to present investors with the same information as Liberty's management considers in assessing the results of operations and performance of its assets. Please see footnote 18 to the accompanying consolidated financial statements for a reconciliation of OCF to earnings (loss) before income taxes and minority interest.

customer service, to exhibit the features and benefits of individual products and to generate customer loyalty. With more than 13 percent of worldwide sales being handled through our web sites, we are just beginning to capitalize on new sales outlets made available by changes in technology and consumer behavior.

Our excitement about the 2003 acquisition of QVC was well justified. We issued 218 million shares of our stock and $5.36 billion of debt in order to make the $7.9 billion purchase of the 57 percent we did not already own. Since the acquisition, cash flow generated by QVC has enabled us to repay a significant portion of the debt incurred and to repurchase about half of the equity we issued. The free cash flow that QVC generates supports our remaining debt and gives Liberty substantial financial flexibility.

In addition to fostering QVC's internal growth, we are in the process of evaluating several foreign markets with the hope of opening up a new international arm of the business within the next three years. We also believe that there may be opportunities to expand QVC's on-line presence, provide access to new demographic groups and vertically integrate the QVC offering by acquiring new businesses and utilizing emerging technologies.

Starz Entertainment Group LLC (SEG) SEG is one of the leading suppliers of premium programming to cable and satellite distributors in the U.S., with approximately 173 million total subscription units. In 2004, SEG posted $963 million in revenue, representing a growth rate of 6 percent compared with 2003. This was driven by better-than-expected growth in SEG's subscription units. Total subscription units rose 15 percent during the year, including a 15 percent increase in Starz units and a 12 percent increase in Encore units. This growth is the result of new affiliation agreements reached with seven of SEG's nine largest distribution partners. Under the new agreements, SEG has been able to forge improved cooperative marketing arrangements and develop more favorable promotional offerings with its distributors, as well add Starz On Demand to several of its cable carriage agreements.

SEG is also focused on driving revenue growth by working to capitalize on the Internet distribution rights it holds for all of its first-run movie titles and approximately 80 percent of its library titles. With the April 2004 launch of Starz Ticket, SEG became the first subscription-based movie download service, enabling subscribers to download multiple movies over the Internet for a fixed monthly fee. Starz Ticket initially included 100 movie titles, and it has already grown to 300 titles, with plans to continue to expand throughout 2005. SEG is working closely with broadband distributors across the U.S. in order to develop joint marketing campaigns that highlight the benefits of using broadband services for rapid downloads of the premium movie selections available on Starz Ticket. SEG is also in active discussions with telephone companies who are planning to offer IP-delivered services using their DSL networks.

We expect 2005 to be the final year of significant programming cost increases for SEG. While we were very pleased with SEG's revenue and subscription unit growth achievements in 2004, it is possible that the impact of continued consolidation among U.S. distributors will restrict revenue growth. Nevertheless, we expect the popularity of the SEG networks among consumers to help return SEG to OCF growth in 2006.

Other Liberty Businesses

During 2004, we undertook measures to strengthen our holding in News Corporation by aligning our voting interest with our economic ownership. We also had a number of positive developments at IAC/InterActiveCorp (IAC) and our other subsidiaries and affiliates.

Following the move of News Corp. to the U.S., we took advantage of an attractive market opportunity to convert a number of our non-voting News Corp. shares into voting shares, making us the second largest News Corp. voteholder. We have been long-time supporters of both News Corp. and the Murdoch family, and we believe the company is one of the best positioned of all global media enterprises today. We are confident that our voting shares are more valuable than non-voting shares in such a strong enterprise.

Our other strategic public holding, IAC, announced its own disaggregation plans to separate its online travel businesses into a new public company to be called Expedia. As one of the leading online travel destinations, Expedia and its other travel-related businesses should receive a more appropriate valuation as a separate public company. Consistent with our own belief, this should provide Expedia with an equity security that can be used in acquisitions intended to fortify its leadership position. We expect that Liberty will have substantially all the same governance rights in Expedia as we have in IAC, including our super-voting shares (which are subject to a proxy in favor of IAC's Chairman and CEO) and the right to maintain our ownership interest in the event of future stock issuances.

On Command, our wholly owned subsidiary, had a very solid year, posting $56 million of OCF and signing new agreements with Hyatt and Accor Hotels. Our equity affiliate, CourtTV, reported strong revenue growth of 22 percent to $227 million and OCF growth of 21 percent to $52 million. True Position, an 89 percent owned subsidiary, is well into its deployment of the T-Mobile and Cingular contracts, and it is aggressively exploring opportunities in the international markets. WildBlue, a provider of broadband Internet services over Ka-band satellites, launched its first satellite in 2004 and is currently conducting commercial tests. After ten years of planning and preparation, equity affiliate WildBlue is scheduled to commence a full commercial rollout in the summer of 2005.

Acquisitions and Investments

Growth through acquisitions is a significant part of our business plan. Our portfolio of non-strategic public investments represents a large pool of capital that currently does not have the potential to earn an acceptable return, so redeploying that capital is a high corporate priority. In 2004, we reviewed a number of significant acquisition opportunities, but none of them came to fruition. We are actively considering a number of other investment and acquisition alternatives. As we do so, our first objective is to invest in our existing businesses or in companies that complement our existing businesses. Following that, we are focused on identifying businesses with attractive characteristics, including strong management, high growth, predictable revenue and cash flow streams, and favorable tax positions.

Capital Structure and Liquidity

Liberty's capital structure and liquidity position remain strong. At December 31, 2004, we had $1.7 billion of consolidated cash and liquid investments and another $9.6 billion of value in our public portfolio and derivatives, excluding our holdings in News Corp. and IAC, which had a market value of approximately $13.3 billion. The face value of our debt was $10.9 billion at year end, approximately one billion lower than it was at the end of 2003 as a result of debt repayments under our debt reduction program. We plan to repay another $1 billion of debt in 2005 and we recently commenced a tender offer for some of the debt that matures in 2006. If we are successful with this offer, we will have repurchased enough of our public debt to complete the debt reduction program. Our substantial asset value and our significant recurring cash flow give us a very high level of confidence in our ability to meet our interest and principal payments as they come due.

Despite our comfort with our debt position, two of the national credit rating agencies recently lowered their ratings on our debt to below investment grade. Their actions came in response to our announcement regarding the distribution of DHC. We disagree with these agencies' assessment of the extent to which our disaggregation strategy has changed our overall creditworthiness. Moreover, as shareholders ourselves and as stewards of the investments of our fellow shareholders, we are satisfied that we have struck an appropriate balance between the higher equity returns and the higher risk that accompany the effective increase in our debt leverage.

Discovery Holding Company

As we noted at the beginning of this Letter, we are preparing to distribute a second company to our shareholders, called Discovery Holding Company, or DHC. DHC will hold our 100 percent interest in Ascent Media Group, Inc. and our 50 percent interest in Discovery Communications, Inc. We believe that by making DHC a separate public company that is focused principally on providing non-fiction television around the world, we will help ensure that this business is appropriately valued by the equity markets. More appropriate valuation will give DHC greater flexibility and an improved ability to capitalize on acquisition and growth opportunities around the world. Moreover, as in the case of LMI, we believe that Liberty shareholders will also benefit from the overall value enhancement of DHC and the further simplification of Liberty.

Ascent Media

Ascent Media is a leading provider of creative, media management and network services to the media and entertainment industries. Ascent's clients include major motion picture studios, independent producers, broadcast networks, programming networks, advertising agencies and other companies that produce, own and/or distribute entertainment, news, sports, corporate, educational, industrial and advertising content.

In 2004, Ascent's revenue grew 25 percent to $631 million, and OCF rose by more than 30 percent to $98 million. These increases were due to acquisitions and organic growth. Ascent is focused on using its existing business platform to market itself as a full-service provider to new and existing customers. Ascent is also targeting significant opportunities for international expansion. As part of this plan, Ascent acquired London Playout Centre Limited in 2004 and Sony's systems integration business at the end of 2003. These acquisitions significantly expanded Ascent's network services business and helped increase revenue 75% for that segment of Ascent's business. Much of Ascent's organic growth came in the creative services area where Ascent saw increased demand in both the U.S. and the United Kingdom for digital, sound and post-production services.

Discovery Communications, Inc.

Discovery is the leading provider of non-fiction entertainment in the world. Through The Discovery Channel, TLC, Animal Planet, The Travel Channel, Discovery Health Channel, nine other emerging networks in the U.S., and over 85 separate international network feeds, Discovery reaches more than one billion cumulative subscribers around the globe and remains one of the world's most recognized television brands.

Discovery continually invests in high-quality programming to reinforce the value of its brands, to extend its leadership position, and to drive growth. In 2004, Discovery accelerated these efforts by increasing the number of programming hours it dedicates to first-run premiere programming and high-profile special productions. In addition, in the fourth quarter, Discovery began an international lifestyles initiative geared to strengthening its international offering. This initiative involves re-launching certain existing channels and developing new channels to create a package of three lifestyle-focused networks for global distribution.

In addition to its programming activities, Discovery offers an educational broadband streaming service that delivers educational video content directly into approximately 50,000 of the 115,000 schools in the U.S. via the Internet. Discovery built this business by acquiring United Streaming in 2003, one of the nation's leading educational broadband streaming services. Discovery plans to use United Streaming to expand its reach to more U.S. schools, as well as to begin testing the streaming of educational video material directly into homes. Between the additional schools that may subscribe to the Discovery service and the opportunity to provide educational material directly to homes, we believe that this could become a significant new business for Discovery in the coming years.

In the face of a challenging advertising market during the second half of 2004, Discovery turned in a record year. Consolidated revenue increased 19 percent to almost $2.4 billion, and consolidated OCF increased 31 percent to $663 million. Results at Discovery were driven primarily by growth at Discovery's U.S. and international networks, as well as by a decline in losses for the commerce division. Discovery's U.S. networks increased revenue by 19 percent, and OCF rose by 23 percent for the year due in large part to increased affiliate revenue and continued growth in advertising revenue. The international networks delivered a 23 percent increase in revenue and a 43 percent increase in OCF. These increases were driven by the overall expansion of the international business, including a 28 percent increase in international subscription units, along with improvements in advertising rates and viewership ratings.

Looking Ahead

We enter 2005 fully committed to creating and realizing greater value for our shareholders. In the coming months and years we will work toward this objective by continuing to employ the initiatives that we first identified in 2003: simplifying our structure, focusing on our strengths and improving the manner in which we hold our businesses.

As we move ahead, we expect to benefit from the inherent growth potential of our businesses, as well as from the skill and effort of the managers and employees who are responsible for realizing that growth potential. We plan to leverage these strengths by looking for new ways to extend the reach of our businesses through acquisitions and to deploy our capital for long-term value creation. We also will continue to evaluate our own structure, including the possibility for further disaggregation if we believe such steps will enhance opportunities for value creation and recognition.

Thank you for your continued support of Liberty Media Corporation.

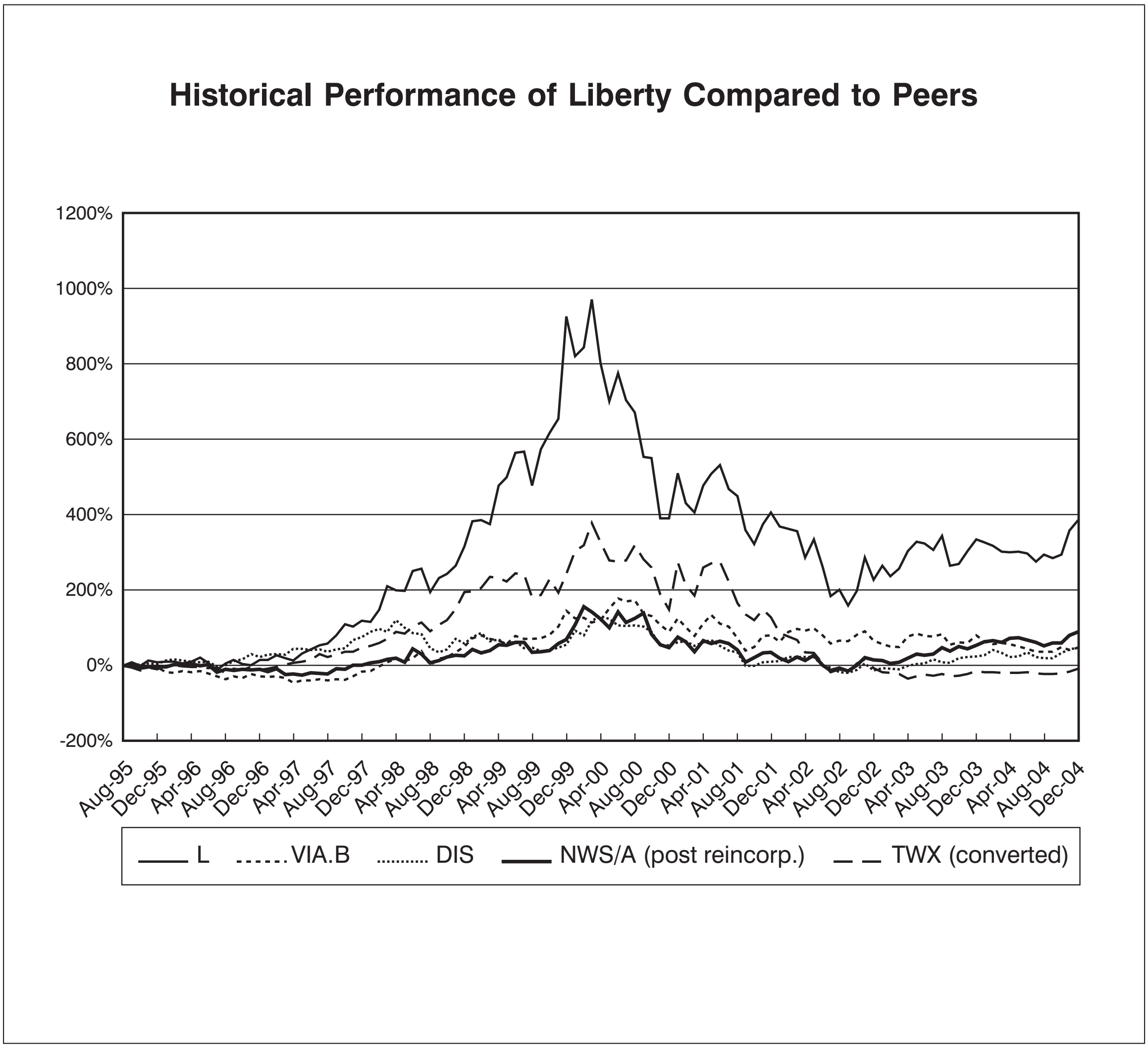
Very truly yours,

Robert R. Bennett
President and Chief Executive Officer

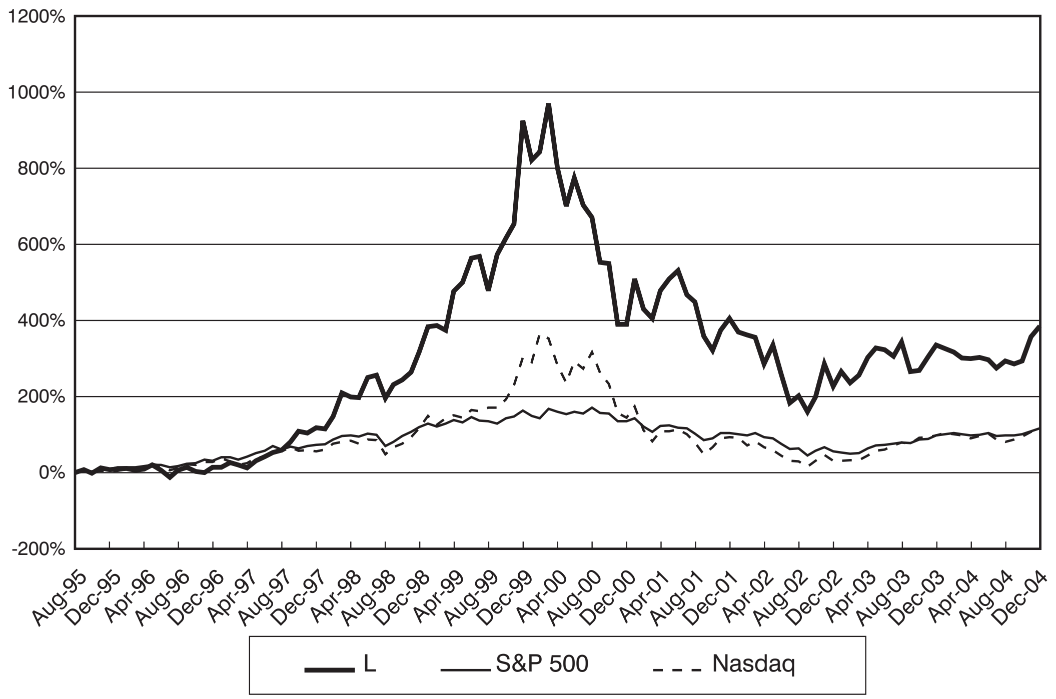
John C. Malone
Chairman of the Board

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.



Historical Performance of Liberty Compared to S&P 500 and Nasdaq



COMPANY PROFILE

Liberty Media is a holding company owning interests in a broad range of electronic retailing, media, communications and entertainment businesses classified in four groups; Interactive, Networks, Tech/Ventures and Corporate. Liberty Media's businesses include some of the world's most recognized and respected brands, including QVC, Encore, STARZ!, Discovery, IAC/InterActiveCorp, and The News Corporation Limited.

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	SUBSCRIBERS AT 12/31/04 (000's)	SUBSCRIBERS AT 12/31/03 (000's)	SUBSCRIBERS AT 12/31/02 (000's)	YEAR LAUNCHED	ATRRIBUTED OWNERSHIP AT 12/31/04
NETWORKS GROUP					
Court TV	82,500	79,000	75,000	1991	50%
Discovery Communications, Inc.				1985	50%
Discovery Channel	89,500	88,500	87,000	1980	
The Learning Channel	87,900	87,000	85,000	1996	
Animal Planet	86,400	84,500	81,100	1987	
Travel Channel	77,000	74,100	68,400	1999	
Discovery Health Channel	54,900	48,300	41,000	2003	
FitTV	35,900	31,900	29,000		
Discovery Digital (aggregate units)[(1)]	187,300	172,600	97,000	1996	
Discovery Civilization				1996	
Discovery Home & Leisure				1996	
Discovery Kids				1996	
Discovery Science				1998	
Discovery en Español				1998	
Animal Planet Asia	86,000	88,800	80,017	1998	25%
Animal Planet Europe	16,800	16,700	12,943	1998	
Animal Planet Japan	2,223	1,858	1,380	2000	
Animal Planet Latin America	12,600	11,300	10,969	1998	25%
Animal Planet UK	9,400	8,800	8,232	1998	
Discovery Asia	85,600	63,000	57,485	1994	
Discovery Canada	7,000	6,800	7,084	1995	10%
Discovery India	30,500	30,600	26,490	1996	
Discovery Japan	4,587	4,078	2,765	1996	
Discovery Europe	35,700	30,300	27,881	1989	
Discovery Middle East/ Turkey	1,100	1,100	1,700	1997	
Discovery Germany	1,800	1,800	2,098	1996	25%
Discovery Italy/Africa	4,000	3,200	2,915	1996	

ENTITY	SUBSCRIBERS AT 12/31/04 (000's)	SUBSCRIBERS AT 12/31/03 (000's)	SUBSCRIBERS AT 12/31/02 (000's)	YEAR LAUNCHED	ATRRIBUTED OWNERSHIP AT 12/31/04
NETWORKS GROUP (Cont.)					
Discovery Latin America	18,800	17,900	15,404	1996	
Discovery Latin America Kids Network	14,900	12,800	12,667	1996	
People & Arts (Latin America)	15,800	13,500	13,440	1995	25%
Discovery Home & Leisure (Europe)	9,700	9,800	8,223	1999	
Europe Showcase	53,400	52,600	43,813	1998	
Health Latin America	10,500	9,100	7,067	2000	
Health UK	9,100	8,700	7,135	2000	
Travel & Living (Latin America)	7,500	6,300	5,240	2000	
Discovery.com, Inc	Online	Online	Online	1995	
GSN	56,411	53,615	45,346	1994	50%
Hallmark Entertainment Investments Co.					18%(2)
MacNeil/Lehrer Productions	N/A	N/A	N/A	N/A	67%
News Corporation (NYSE: NWS, NWS.A)					18%(3)
Starz Entertainment Group LLC					100%
Encore	24,457	21,925	21,167	1991	
MOVIEplex	3,925	5,362	4,966	1995	
Thematic Multiplex (aggregate units)(1)	130,349	111,358	98,325		
Love Stories				1994	
Westerns				1994	
Mystery				1994	
Action				1994	
True Stories				1994	
WAM! America's Kidz Network				1994	
STARZ!	14,108	12,324	13,436	1994	
STARZ! Theater(1)				1996	
BLACK STARZ!(1)				1997	
STARZ! Family(1)				1999	
STARZ! Cinema(1)				1999	

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/04
	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. The goal of the Company is to be the world's largest and most profitable interactive commerce company by pursuing a multi-brand strategy.	20%(4)
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.	32%(5)
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 12/31/04
	TECH/VENTURES GROUP	
Current Communications Group	Current Communications Group is focused on developing Broadband over Power Line (BPL) technology and solutions through its two subsidiaries, Current Communications and Current Technologies.	16%
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.	14%
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 12/31/04
	CORPORATE & OTHER ASSETS	
Motorola, Inc. (NYSE: MOT)	Provider on integrated communications solutions and embedded electronic solutions.	3%
Sprint Corporation (NYSE: FON)	A global integrated communications provider serving more than 26 million customers in over 100 countries. Sprint provides local communications services in 39 states and the District of Columbia and operates the largest 100-percent digital, nationwide PCS wireless network in the United States.	8%(6)
Time Warner Inc. (NYSE: TWX)	Time Warner Inc. is one of the world's leading media and entertainment companies, whose business 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%

(1) Digital services.

(2) Hallmark Entertainment Investments Co. owns an approximate 9% ownership in Crown Media Holdings, Inc. (NASDAQ: CRWN).

(3) In December 2004, Liberty acquired 92.0 million shares of News Corp. Class B common stock in exchange for 86.9 million shares of News Corp. Class A common stock bringing Liberty's voting interest in News Corp. to approximately 18%.

(4) Liberty owns approximately 20% of IAC common stock representing approximately 47% voting interest, however, Liberty has granted voting control over its ownership interest to the Chairman and CEO of IAC.

(5) Liberty owns approximately 32% of OpenTV's common stock representing an approximate 79% voting interest.

(6) Less than 1% of voting power. Liberty beneficially owns shares of Sprint Corporation common stock and instruments convertible into Sprint Corporation common stock.

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

Market Information

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, 2004 and 2003.

	Series A		Series B	
	High	**Low**	**High**	**Low**
2004				
First quarter	$12.45	10.57	14.15	11.25
Second quarter through June 7, 2004	$11.45	10.12	12.75	11.00
June 8 through June 30, 2004*	$ 9.65	8.86	11.00	9.80
Third quarter	$ 9.02	8.33	10.20	9.00
Fourth quarter	$11.21	8.68	11.92	8.80
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

* Our spin off of LMI was completed on June 7, 2004.

Holders

As of February 11, 2005, there were approximately 4,800 and 270 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).

Dividends

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.

Securities Authorized for Issuance Under Equity Compensation Plans

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

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.

	December 31,				
	2004	2003(2)	2002	2001	2000
	amounts in millions				
Summary Balance Sheet Data(1):					
Investments in available-for-sale securities and other cost investments	$21,847	19,566	14,181	20,268	16,639
Investment in affiliates	$ 3,734	3,613	6,241	9,649	19,271
Total assets	$50,181	54,225	40,324	48,539	54,268
Long-term debt(3)	$ 8,566	9,417	4,291	4,592	5,231
Stockholders' equity	$24,586	28,842	24,682	30,123	34,109

	Years ended December 31,				
	2004	2003(2)	2002	2001	2000
	amounts in millions, except per share amounts				
Summary Statement of Operations Data(1):					
Revenue	$ 7,682	3,738	1,804	1,774	1,322
Operating income (loss)(4)	$ 742	(939)	(80)	(1,008)	438
Share of earnings (losses) of affiliates, net(5)	$ 97	45	(89)	(4,345)	(3,316)
Realized and unrealized gains (losses) on financial instruments, net	$(1,284)	(662)	2,139	361	225
Gains (losses) on dispositions, net	$ 1,406	1,125	(541)	(310)	7,338
Nontemporary declines in fair value of investments	$ (129)	(22)	(5,806)	(4,099)	(1,463)
Earnings (loss) from continuing operations(4)(5)	$ 161	(1,225)	(3,062)	(5,938)	1,620
Basic and diluted earnings (loss) from continuing operations per common share(6)	$ .06	(.44)	(1.18)	(2.29)	.63

(1) On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, Liberty Media International, Inc. or LMI, to our shareholders. During the fourth quarter of 2004, the executive committee of our board of directors approved a plan to dispose of our approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. As a result of marketing efforts conducted prior to the bankruptcy filing, DMX has entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. Other prospective buyers will have an opportunity to submit offers to purchase all or a portion of those assets by a date to be determined by the Bankruptcy Court. After competitive bids, if any, have been submitted, we expect that the Bankruptcy Court will make a determination as to the appropriate buyer, and the operating assets of DMX will be sold. Our consolidated financial statements and selected financial information have been prepared to reflect LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, and revenue, costs and expenses of LMI and DMX have been excluded from the respective captions in our consolidated financial statements and selected financial information and have been reported under the heading of discontinued operations. See note 5 to our consolidated financial statements for additional information regarding LMI and DMX.

(2) 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.

(3) Excludes the call option portion of our exchangeable debentures. See note 9 to our consolidated financial statements.

(4) Our 2003 operating loss and loss from continuing operations include a $1,352 million goodwill impairment charge related to Starz Entertainment. See footnote 2 to our consolidated financial statements for additional information.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142"), which among other matters, provides that goodwill and other indefinite-lived assets no longer be amortized. Amortization expense for such assets aggregated $565 million and $550 million for the years ended December 31, 2001 and 2000, respectively.

(5) Included in share of losses of affiliates are other-than-temporary declines in value aggregating $71 million, $76 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 $705 million, $1,017 million for the years ended December 31, 2001 and 2000, 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.

(6) 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 Corp., 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 controlling and non-controlling interests in a broad range of electronic retailing, media, communications and entertainment companies. In recent years we have shifted our corporate focus to the acquisition and exercise of control over our affiliated companies. A significant 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, increased our ownership to over 98% of QVC, and we now consolidate the financial position and results of operations of QVC. Our businesses are currently organized in three Groups: Interactive Group, Networks Group and Corporate and Other.

On June 7, 2004, we completed the spin off of our wholly-owned subsidiary, Liberty Media International, Inc. ("LMI"), to our shareholders. Substantially all of the assets and businesses of LMI were attributed to our International Group segment. In connection with the spin off, holders of our common stock on June 1, 2004 received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned at 5:00 p.m. New York City time on June 1, 2004 and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned at 5:00 p.m. New York City time on June 1, 2004. The spin off is intended to qualify as a tax-free spin off. For accounting purposes, the spin off is deemed to have occurred on June 1, 2004, and we recognized no gain or loss in connection with the spin off.

During the fourth quarter of 2004, the executive committee of our board of directors approved a plan to dispose of our approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). DMX is principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses and was included in our Networks Group operating segment. On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. As a result of marketing efforts conducted prior to the bankruptcy filing, DMX has entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. Other prospective buyers will have an opportunity to submit offers to purchase all or a portion of those assets by a date to be determined by the Bankruptcy Court. After competitive bids, if any, have been submitted, we expect that the Bankruptcy Court will make a determination as to the appropriate buyer, and the operating assets of DMX will be sold.

Our consolidated financial statements and accompanying notes have been prepared to reflect LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of LMI and DMX have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings (loss) and statements of cash flows and have been reported under the heading of discontinued operations in such consolidated financial statements.

Our Interactive Group is focused on three areas within the interactive arena: commerce, games and targeted advertising. In addition, the Interactive Group is charged with helping our other businesses take advantage of interactive opportunities that may be available to them. In this regard, QVC has partnered with several of our other businesses, including Discovery Communications, OpenTV Corp. and On Command Corporation, to develop new interactive services. Our primary businesses in the Interactive Group are QVC and Ascent Media Group, Inc. In addition, we own approximately 20% of the outstanding common stock of IAC/InterActiveCorp, which we account for as an available-for-sale ("AFS") security. QVC has identified improved domestic growth and continued international growth as key areas of focus in 2005. QVC's steps to achieving these goals will include (1) continued domestic and international efforts to increase the number of customers who have access to and use its service and (2) continued expansion of brand selection and available domestic products. The key challenges to achieving these goals in both the U.S. and international markets are (1) increased competition from other home shopping and internet retailers, (2) advancements in technology, such as video on demand and personal video recorders, which may alter TV viewing habits, and (3) maintaining favorable channel positioning as digital TV penetration increases.

In 2005, Ascent Media intends to focus on leveraging its broad array of media services to market itself as a full service provider to new and existing customers within the movie and television production industry. With facilities in the U.S., the United Kingdom and Asia, Ascent Media also hopes to increase its services to multinational companies. The challenges that Ascent Media faces include differentiating its products and services to help maintain or increase operating margins and financing capital expenditures for equipment and other items to satisfy customers' desire for services using the latest technology.

Our primary businesses in the Networks Group are Starz Entertainment Group LLC, Discovery Communications, Inc., Courtroom Television Network, LLC and GSN, LLC. In addition we own approximately 17% of News Corporation ("News Corp."), which we account for as an AFS security. We view the development of digital and interactive services, our ability to expand these networks and increase international distribution 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 others 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 downturn in the 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.

In addition to the businesses included in the foregoing Groups, we continue to maintain significant investments and related derivative positions in public companies such as Time Warner Inc. and Sprint Corporation, which are accounted for as AFS securities and are included in our Corporate and Other Group. We view these holdings as financial assets that we can monetize and use the resulting proceeds for debt repayments, stock buybacks or additional investments in any of our operating Groups.

Also included in our Corporate and Other Group are our technology assets, which include our consolidated subsidiary TruePosition, Inc., as well as minority stakes in WildBlue Communications, Inc. and IDT Corporation. TruePosition provides equipment and technology that provide location-based services to wireless users. WildBlue Communications has initiated testing of its high speed Internet and data services via satellite to rural residential and small business customers. IDT Corporation, an AFS investment, is a multinational communications company whose primary businesses are prepaid debit and rechargeable calling cards, wholesale telecommunications carrier services and consumer telephone services.

Results 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,		
	2004	2003	2002
	amounts in millions		
Revenue			
Interactive Group	$6,627	2,778	794
Networks Group	984	933	969
Corporate and Other	71	27	41
Consolidated revenue	$7,682	3,738	1,804
Operating Cash Flow (Deficit)			
Interactive Group	$1,375	540	109
Networks Group	236	368	371
Corporate and Other	(74)	(108)	(77)
Consolidated operating cash flow	$1,537	800	403
Operating Income (Loss)			
Interactive Group	$ 715	194	(279)
Networks Group	145	264	296
Corporate and Other	(118)	(1,397)	(97)
Consolidated operating income (loss)	$ 742	(939)	(80)

Revenue. Our consolidated revenue increased over 100% in each of 2004 and 2003, as compared to the corresponding prior year. These increases are due primarily to our September 2003 acquisition of a controlling interest in QVC. Our consolidated financial statements include $5,687 million and $1,973 million of revenue from QVC for the years ended December 31, 2004 and 2003, respectively. Our 2004 revenue was also positively impacted by increases in our Interactive Group due to an increase at Ascent Media of $123 million and in our Networks Group due to an increase at Starz Entertainment of $57 million. In 2003, 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 in 2003 due primarily to a reduction in rates in former AT&T Broadband systems resulting from the re-negotiation of Starz Entertainment's affiliation agreement with Comcast in 2003. 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 each business's 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, litigation settlements and impairments of long-lived assets that are included in the measurement of operating income pursuant to generally 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 note 18 to the accompanying consolidated financial statements for a reconciliation of Operating Cash Flow to Earnings (Loss) From Continuing Operations Before Income Taxes and Minority Interest.

Consolidated Operating Cash Flow increased $737 million and $397 million in 2004 and 2003, respectively, as compared to the corresponding prior year. These increases are due primarily to our acquisition of QVC, which contributed $1,230 million and $434 million in 2004 and 2003, respectively, to our consolidated Operating Cash Flow. In 2004, this increase was partially offset by a decrease in Starz Entertainment's operating cash flow ($129 million) primarily due to higher programming costs. In 2003, the increase due to QVC was partially offset by a decrease in our Corporate and Other Group ($31 million), which resulted from lower revenue from ancillary sources and higher legal and consulting expenses.

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. 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 increase in stock compensation in 2004 is due primarily to an increase in our stock price. The decrease in stock compensation in 2003 is primarily a result of a decrease in the equity value of Starz Entertainment. 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 2004 and 2003 is due to increases in our depreciable asset base resulting from the acquisition of QVC and subsidiary capital expenditures. The increase in amortization in 2004 and 2003 is due primarily to the acquisition of QVC and amortization of the related intangible assets.

Impairment of Long-lived Assets. Starz Entertainment obtained an independent third party valuation in connection with its 2003 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 Entertainment, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill related to Starz Entertainment. 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 was recorded as an impairment charge in the fourth quarter of 2003. Starz Entertainment'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 Entertainment 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 Entertainment's services and (2) lower per subscriber rates under a new affiliation agreement with Comcast.

During the year ended December 31, 2002, we determined that the carrying value of certain of our subsidiaries' assets exceeded their respective fair values. Accordingly, we recorded impairments of goodwill related to OpenTV ($92 million), Ascent Media ($84 million) and On Command ($9 million). Such impairments were calculated as the difference between the carrying value and the estimated fair value of the related assets.

Operating Income (Loss). We generated consolidated operating income of $742 million in 2004 compared to operating losses of $939 million and $80 million in 2003 and 2002, respectively. The higher operating loss in 2003 is due primarily to the goodwill impairment charge recorded by Starz Entertainment noted above. Our operating income in 2004 is attributable to QVC ($760 million) and Starz Entertainment ($148 million) partially offset by operating losses of our other consolidated subsidiaries and corporate expenses.

Other Income and Expense

Interest expense. Interest expense was $615 million, $529 million and $410 million, for the years ended December 31, 2004, 2003 and 2002, respectively, including $83 million, $61 million and $7 million, respectively, of accretion of our exchangeable debentures. In addition, the increase in 2004 is due to our issuance of debt for our acquisition of QVC in September 2003, partially offset by decreases due to our debt retirements in 2004 and the fourth quarter of 2003. The remaining increase in interest expense in 2003 is due primarily to an increase in our debt balance in 2003.

Dividend and interest income. Dividend and interest income was $131 million, $164 million and $183 million for the years ended December 31, 2004, 2003 and 2002, respectively. These decreases are due primarily to decreases in the interest we earned on invested cash balances. Interest and dividend income for the year ended December 31, 2004 was comprised of interest income earned on invested cash ($35 million), dividends on News Corp. common stock ($46 million), dividends on Sprint Corporation common stock ($15 million), dividends on ABC Family Worldwide preferred stock ($13 million) and other ($22 million). In connection with our spin off of LMI, we contributed 99.9% of our economic interest in the ABC Family Worldwide preferred stock to LMI. Accordingly, this will not be a source of dividend income for us in the future.

Investments in Affiliates Accounted for Using the Equity Method. A summary of our share of earnings (losses) of affiliates, including nontemporary declines in value, is included below:

	Percentage Ownership at December 31, 2004	Years ended December 31, 2004	2003	2002
		amounts in millions		
Discovery	50%	$84	38	(32)
Court TV	50%	17	(1)	(2)
GSN	50%	(1)	—	(6)
QVC	*	—	107	154
Other	Various	(3)	(99)	(203)
		$97	45	(89)

* QVC was an equity method affiliate until September 2003 when it became a consolidated subsidiary

Included in share of losses for the years ended December 31, 2003 and 2002, are adjustments for nontemporary declines in value aggregating $71 million and $76 million, respectively. See "*Operating Results by Business Group*" below for a discussion of our more significant equity method affiliates.

Realized and unrealized gains (losses) on derivative instruments. Realized and unrealized gains (losses) on derivative instruments are comprised of the following:

	Years ended December 31, 2004	2003	2002
	amounts in millions		
Change in fair value of exchangeable debenture call option features	$ (129)	(158)	784
Change in fair value of equity collars	(941)	(483)	4,032
Change in fair value of borrowed shares	(227)	(121)	—
Change in fair value of put options	2	108	(445)
Change in fair value of put spread collars	8	21	71
Change in fair value of hedged AFS securities	—	—	(2,378)
Change in fair value of other derivatives(1)	3	(29)	75
Total realized and unrealized gains (losses), net	$(1,284)	(662)	2,139

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

During 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 securities 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 AFS 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.

Gains (losses) on dispositions. Aggregate gains (losses) from dispositions are comprised of the following.

	Years ended December 31,		
Transaction	**2004**	**2003**	**2002**
	amounts in millions		
Sale of News Corp. non-voting shares	$ 844	236	—
Exchange transaction with Comcast	387	—	—
Sale of investment in Cendant Corporation	—	510	—
Sale of investment in Vivendi	—	262	—
Exchange of USAI equity securities for Vivendi common stock	—	—	(817)
Sale of Telemundo Communications Group	—	—	344
Other, net	175	117	(68)
	$1,406	1,125	(541)

In the above described 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 6, 8 and 11 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Nontemporary declines in fair value of investments. During 2004, 2003 and 2002, we determined that certain of our cost investments experienced other-than-temporary declines in value. As a result, the cost bases of such investments were adjusted to their respective fair values based primarily on quoted market prices at the date each adjustment was deemed necessary. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. Other-than-temporary declines in value recorded in 2002 related primarily to our investments in Time Warner Inc., News Corporation and Sprint Corporation. Other-than-temporary declines in value in 2004 and 2003 were not significant.

Income taxes. Our effective tax rate was 49.5% in 2004, was not meaningful in 2003 and was 33.1% for the year ended December 31, 2002. Our effective tax rate in 2004 differed from the U.S. federal income tax rate of 35% primarily due to foreign and state taxes, partially offset by a benefit generated by the recognition of our tax basis in the equity of DMX. Although we had a loss before tax expense for book purposes in 2003, we recorded tax expense of $354 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 rate in 2002 differed from the U.S. federal income tax rate 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 enterprise-level goodwill) was not recoverable. Accordingly, in the first quarter of 2002, we recorded an impairment loss of $1,528 million, net of related taxes, as the cumulative effect of a change in accounting principle. This transitional impairment loss includes an adjustment of $61 million for our proportionate share of transition adjustments that our equity method affiliates recorded.

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 to provide us with accurate financial information prepared in accordance with GAAP that we use in the application of the equity method. In addition, we rely on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. 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,		
	2004	2003	2002
	amounts in millions		
Revenue			
QVC(1)	$5,687	4,889	4,362
Ascent Media	631	508	538
Other consolidated subsidiaries	309	297	256
Combined Interactive Group revenue	6,627	5,694	5,156
Eliminate revenue of equity method affiliates(1)	—	(2,916)	(4,362)
Consolidated Interactive Group revenue	$6,627	2,778	794
Operating Cash Flow			
QVC(1)	$1,230	1,013	861
Ascent Media	98	75	87
Other consolidated subsidiaries	47	31	22
Combined Interactive Group operating cash flow	1,375	1,119	970
Eliminate operating cash flow of equity method affiliates(1)	—	(579)	(861)
Consolidated Interactive Group operating cash flow	$1,375	540	109
Operating Income (Loss)			
QVC(1)	$ 760	785	737
Ascent Media	18	1	(65)
Other consolidated subsidiaries	(63)	(99)	(214)
Combined Interactive Group operating income	715	687	458
Eliminate operating income of equity method affiliates(1)	—	(493)	(737)
Consolidated Interactive Group operating income (loss)	$ 715	194	(279)

(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 and, to a lesser extent, via the Internet. 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-UK"), Germany ("QVC-Germany") and Japan ("QVC-Japan"). QVC-UK broadcasts live 19 hours a day. In October 2003, QVC-Germany increased its daily broadcast time from 19 to 24 hours; and in May 2004, QVC-Japan increased its daily broadcast time from 17 to 24 hours. 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 years ended December 31, 2004 and 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, 2004, 2003 and 2002. Depreciation and amortization for periods prior and subsequent to our 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 2004, 2003 and 2002 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,		
	2004	2003	2002
	amounts in millions		
Net revenue	$5,687	4,889	4,362
Cost of sales	(3,594)	(3,107)	(2,784)
Gross profit	2,093	1,782	1,578
Operating expenses	(497)	(447)	(413)
SG&A expenses	(366)	(322)	(304)
Operating cash flow	1,230	1,013	861
Stock compensation	(33)	(6)	(5)
Depreciation and amortization	(437)	(222)	(119)
Operating income	$ 760	785	737

Net revenue for the years ended December 31, 2004, 2003 and 2002 includes the following revenue by geographical area:

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
QVC-US	$4,141	3,845	3,705
QVC-UK	487	370	296
QVC-Germany	643	429	275
QVC-Japan	416	245	86
Consolidated	$5,687	4,889	4,362

QVC's net revenue increased 16.3% and 12.1% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. The 2004 increase is due primarily to an increase in the number of units shipped, an increase in average sales per customer and favorable foreign currency exchange rates. In 2004, the number of units shipped increased from 121.0 million to 138.0 million, or 14.0%, and average sales per customer increased in each of QVC's markets with

Germany increasing 41.6%, Japan 19.0%, United Kingdom 12.4% and the U.S. 7.7%. While the number of units shipped increased, the average sales price per unit ("ASP") in the U.S. market decreased due to purchases of lower priced items within the home category and a shift in product mix to lower priced apparel and accessories. QVC-Germany and QVC-Japan also experienced a drop in ASP in their respective local currencies due primarily to a shift in product mix from jewelry to home products and apparel products. However, these decreases were more than offset by favorable exchange rate fluctuations resulting in an increase in U.S. dollar-denominated ASP in both markets. The 2003 increase in revenue is due to increases in average sales per customer for QVC-Germany and QVC-Japan of 48.4% and 73.0%, respectively, and a 13.0% increase in the number of units shipped, as compared to 2002. Additional increases in 2003 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. In 2003, QVC-US experienced a 5.7% decrease in ASP, while the ASP in local currency for QVC-UK and QVC-Japan increased 5.0% and 2.3%, respectively. Returns as a percent of gross product revenue decreased from 18.3% in 2002 to 17.8% in 2003 and to 17.6% in 2004. Each of QVC's markets added subscribers in 2004 and 2003. The number of homes receiving QVC's services are as follows:

	Homes (in millions)	
	December 31,	
	2004	2003
QVC-US	88.4	85.9
QVC-UK	15.6	13.1
QVC-Germany	35.7	34.6
QVC-Japan	14.7	11.8

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 (i) the willingness of cable and satellite distributors to continue carrying QVC's programming service, (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult as distributors convert analog customers to digital, (iii) changes in television viewing habit because of personal video recorders and video-on-demand and (iv) general economic conditions.

As noted above, during the years ended December 31, 2004 and 2003 the increases in revenue and expenses were also impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. In the event the U.S. dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively impacted. 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, 2004		Year ended December 31, 2003	
	US dollars	Local currency	US dollars	Local currency
QVC-US	7.7%		3.8%	
QVC-UK	31.6%	17.5%	25.0%	14.2%
QVC-Germany	49.9%	36.3%	56.0%	31.0%
QVC-Japan	69.8%	58.3%	184.9%	170.2%

Gross profit increased from 36.2% of net revenue for the year ended December 31, 2002 to 36.4% for the year ended December 31, 2003 and to 36.8% for 2004. Such increases are due primarily to lower inventory obsolescence provision and higher product margins due to a shift in the product mix from lower margin home products to higher margin apparel and accessory categories.

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 11.2% and 8.2% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year period. These increases are primarily due to increases in sales volume. As a percentage of net revenue, operating expenses were 8.7%, 9.1% and 9.5% for 2004, 2003 and 2002, respectively. As a percent of net revenue, commissions and license fees decreased in both 2004 and 2003, as compared to the corresponding prior year. The decrease in 2004 is primarily due to a decrease in QVC-UK resulting from the termination of commissions to one distributor and an increase in the mix of non-commissionable sales. In 2003, the commissions and license fee expense decreased as a percentage of net revenue for QVC-Japan where certain distributors receive payments based on number of subscribers rather than sales volume. In addition for both periods, there has been an increase in Internet sales for which lower commissions are required to be paid. As a percent of net revenue, order processing and customer service expenses decreased in each international segment in 2004 compared to 2003 as a result of reduced personnel expense due to increased Internet sales, and operator efficiencies in call handling and staffing. Order processing and customer service expenses remained consistent at 3.5% of net revenue for the years ended December 31, 2003 and 2002. QVC's bad debt provision remained constant from 2003 to 2004. The bad debt provision as a percentage of net revenue decreased in 2003 compared to 2002 as the result of a one-time provision related to a bankrupt freight payment agent that occurred in 2002. Credit card processing fees remained consistent at 1.4% of net revenue for each of the years ended December 31, 2004, 2003 and 2002.

QVC's SG&A expenses increased 13.7% and 5.9% during the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. The majority of the increase in 2004 is due to increases in personnel costs due to the addition of employees to support the increased sales of QVC's foreign operations and increased broadcasting hours. Information technology and marketing and advertising costs also increased in 2004. Information technology expenditure increases are the result of higher third-party service costs related to various software projects as well as higher software maintenance fees. The increase in advertising and marketing expenditures can largely be attributed to QVC-Japan and QVC-Germany. These increases are partially offset by decreases in transponder fees and a lower provision for statutory local sales and use tax. In connection with our consolidation of QVC in 2003, transponder leases that previously had been accounted for as operating leases are now accounted for as capital leases pursuant to the provisions of EITF Issue No. 01-8. Accordingly, QVC's transponder expense has decreased while depreciation and interest expense have increased in 2004.

The 2003 increase in SG&A expenses 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.

QVC's depreciation and amortization expense increased for the years ended December 31, 2004 and 2003 due primarily 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 increased 24.2% and decreased 5.6% during the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. The 2004 increase is due primarily to acquisitions ($62 million) and new business ($34 million) by Ascent Media's Networks Group. In addition, revenue for Ascent Media's Creative Services Group and Audio Group increased $14 million and $11 million, respectively, due to increases in projects for feature films and episodic television. The 2003 decrease is due primarily to a decrease in revenue for Ascent Media's Networks Group ($29 million) due to the disposition of a business unit in December 2002 and the re-negotiation of certain contracts resulting in lower rates for services.

Ascent Media's operating expenses increased $79 million or 26.3% and decreased $21 million or 6.5% during the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. These fluctuations are due to changes in variable expenses such as personnel and material costs. In addition, the 2003 decrease is due to the sale of a Networks Group business unit referred to above.

Ascent Media's SG&A expenses increased $29 million or 23.8% for the year ended December 31, 2004, as compared to 2003. This increase is due primarily to acquisitions by Ascent Media's Networks Group and various individually insignificant increases. Ascent Media's general and administrative expenses were relatively comparable over the 2002 and 2003 periods.

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. No significant impairments were recorded by Ascent Media in 2004 or 2003.

Other. 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; and OpenTV, which provides interactive television solutions, including operating middleware, web browser software, interactive applications, and consulting and support services. Revenue for our other consolidated subsidiaries was relatively comparable in 2003 and 2004. The changes in operating cash flow and operating loss in 2004 for our other consolidated subsidiaries are due to improvements in the operating results of Open TV. Other consolidated subsidiary revenue increased $41 million in 2003 due primarily to the operations of OpenTV ($46 million), which we acquired in August 2002. The decrease in operating loss from 2002 to 2003 resulted from a $92 million impairment charge recorded by OpenTV in 2002.

Networks Group

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

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Revenue			
Starz Entertainment	$ 963	906	945
Discovery(1)	2,365	1,995	1,717
Court TV(1)	227	186	148
GSN(1)	88	76	53
Other consolidated subsidiaries	21	27	24
Combined Networks Group revenue	3,664	3,190	2,887
Eliminate revenue of equity method affiliates	(2,680)	(2,257)	(1,918)
Consolidated Networks Group revenue	$ 984	933	969
Operating Cash Flow			
Starz Entertainment	$ 239	368	371
Discovery(1)	663	508	379
Court TV(1)	52	43	(1)
GSN(1)	(2)	1	(11)
Other consolidated subsidiaries	(3)	—	—
Combined Networks Group operating cash flow	949	920	738
Eliminate operating cash flow of equity method affiliates	(713)	(552)	(367)
Consolidated Networks Group operating cash flow	$ 236	368	371
Operating Income (Loss)			
Starz Entertainment	$ 148	266	297
Discovery(1)	484	314	169
Court TV(1)	36	13	(18)
GSN(1)	(3)	(1)	(12)
Other consolidated subsidiaries	(3)	(2)	(1)
Combined Networks Group operating income	662	590	435
Eliminate operating income of equity method affiliates	(517)	(326)	(139)
Consolidated Networks Group operating income	$ 145	264	296

(1) Represents an equity method affiliate. Equity ownership percentages for significant equity affiliates at December 31, 2004 are as follows:

Discovery	50%
Court TV	50%
GSN	50%

Starz Entertainment. Starz Entertainment provides premium programming distributed by cable operators, direct-to-home ("DTH") satellite providers and other distributors throughout the United States. The majority of Starz Entertainment's revenue is derived from the delivery of movies to subscribers under affiliation agreements with these video programming distributors.

Starz Entertainment's revenue increased 6.3% and decreased 4.1% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. The increase in 2004 is due primarily to an increase in the average number of subscription units for Starz

Entertainment's Thematic Multiplex and Encore services. The Thematic Multiplex service is a group of up to six channels, each of which exhibits movies based on an individual theme. Total average subscription units, which represent the number of Starz Entertainment services which are purchased by cable, DTH and other distribution media customers, increased 13.0% during the year ended December 31, 2004, as compared to the prior year. In addition, Starz Entertainment's period-end subscription units increased 21.8 million units or 14.4% since the end of 2003. These increases in subscription units are due in part to (i) new affiliation agreements between Starz Entertainment and certain multichannel video programming distributors and (ii) participation with distributors in national marketing campaigns and other marketing strategies. Under these new affiliation agreements, Starz Entertainment has obtained benefits such as more favorable promotional offerings of its services and increased co-operative marketing commitments. Starz Entertainment is negotiating with certain of its other multichannel video programming distributors, including Echostar Communications whose affiliation agreement has been extended until June 2005, to obtain similar promotions and increased co-operative marketing commitments.

Starz Entertainment's affiliation agreements generally do not provide for the inclusion of its services in specific programming packages of the distributors. The affiliation agreement with Comcast, however, does include a short-term packaging commitment to carry the Encore and Thematic Multiplex channels (EMP) in specified digital tiers on Comcast's cable systems. Although the affiliation agreement expires at the end of 2010, Comcast's packaging commitment expires at the end of 2005. Starz Entertainment and Comcast are currently negotiating an extension of this packaging commitment. At this time, Starz Entertainment is unable to predict whether it will be able to obtain an extended packaging commitment from Comcast comparable to the current commitment on economic terms that are acceptable to Starz Entertainment. If such an extension cannot be obtained, Comcast may elect to place the EMP services on a less favorable digital tier, which could negatively affect Starz Entertainment's ability to retain and add EMP subscribers in Comcast service areas.

As noted above, the increase in subscription units is due primarily to subscription units for the Thematic Multiplex service, which has a lower subscription rate than other Starz Entertainment services. In addition, Starz Entertainment has entered into fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay a fixed rate regardless of the number of subscribers. The fixed rate is increased annually or semi-annually as the case may be. These agreements expire in 2006 through 2008. Due to the foregoing factors, the percentage increase in average subscription units exceeds the percentage increase in revenue. Comcast, DirecTV, Echostar Communications and Time Warner Inc. generated 24.2%, 23.6%, 11.3% and 9.7%, respectively, of Starz Entertainment's revenue for the year ended December 31, 2004.

The 2003 decrease in revenue is primarily due to a new seven-year affiliation agreement with Comcast, which Starz Entertainment and Comcast entered into in September 2003. The new affiliation agreement provides for the carriage of the STARZ! and Encore movie services on all of Comcast's owned and operated cable systems, including those systems acquired by Comcast in November 2002 from AT&T Broadband LLC. The AT&T Broadband systems had previously been the subject of an affiliation agreement which provided for AT&T Broadband's unlimited access to all of the existing STARZ! and Encore services in exchange for fixed monthly payments to Starz Entertainment. The effective per-subscriber fee for the AT&T Broadband systems under the new Comcast affiliation agreement is lower than the effective rate under the old AT&T Broadband affiliation agreement, which in conjunction with a loss in STARZ! subscription units in Comcast cable systems resulted in a $77 million decrease in revenue from Comcast in 2003. This decrease was partially offset by a $35 million increase in revenue from other distributors, which resulted from a 13.6% increase in the number of average subscription units.

Starz Entertainment's subscription units at December 31, 2004, 2003 and 2002 are presented in the table below.

Service Offering	Subscriptions at December 31, 2004	2003	2002
		in millions	
Thematic Multiplex	130.3	111.4	96.8
Encore	24.5	21.9	20.9
STARZ!	14.1	12.3	13.2
Movieplex	3.9	5.4	5.0
	172.8	151.0	135.9

At December 31, 2004, cable, direct broadcast satellite, and other distribution represented 65.8%, 33.1% and 1.1%, respectively, of Starz Entertainment's total subscription units.

Starz Entertainment's operating expenses increased $173 million or 40.3% and $22 million or 5.4% for the years ended December 31, 2004 and 2003, 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 and to $564 million in 2004. Such increases are due to (i) higher cost per title due to new rate cards for movie titles under certain of its license agreements that were effective for movies made available to Starz Entertainment in 2004 and (ii) amortization of deposits previously made under the output agreements. Starz Entertainment's 2003 programming costs were also impacted by increases in the box office performance of movie titles that became available to Starz Entertainment in 2003. In addition, in the first quarter of 2003, Starz Entertainment 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.

Starz Entertainment expects that its programming costs in 2005 will exceed the 2004 costs by approximately $115 million to $135 million due to the factors described above. Assuming a similar quantity of movie titles is available to Starz Entertainment in 2006 and the box office performance of such titles is consistent with the performance of titles received in 2005, Starz Entertainment expects that its 2006 programming expense will be less than 10% higher than its 2005 programming expense. These estimates are subject to a number of assumptions that could change depending on the number and timing of movie titles actually becoming available to Starz Entertainment and their ultimate box office performance. Accordingly, the actual amount of cost increases experienced by Starz Entertainment may differ from the amounts noted above. Starz Entertainment currently does not expect to generate sufficient increases in revenue or reductions in other costs to fully offset the programming increases. Accordingly, we are expecting a reduction to Starz Entertainment's operating cash flow and operating income in 2005.

Starz Entertainment's SG&A expenses increased $13 million or 12.5% and decreased $58 million or 35.0% during 2004 and 2003, respectively, as compared to the corresponding prior year. The 2004 increase is due primarily to increases in sales and marketing expenses partially offset by decreases in bad debt and payroll tax expense. As noted above, Starz Entertainment has entered into new affiliation agreements with certain multichannel television distributors, which, in some cases, has resulted in new packaging of Starz Entertainment's services and increased co-operative marketing commitments. As a result, sales and marketing expenses increased $33 million for the year ended December 31, 2004, as compared to 2003. During the year ended December 31, 2004, Starz Entertainment sold a portion of its pre-petition accounts receivable from Adelphia Communications to an independent third party. Starz Entertainment had previously provided an allowance against the Adelphia accounts receivable based on Starz Entertainment's estimate of the amount it would collect. The proceeds from the sale of the Adelphia accounts receivable exceeded the net accounts receivable balance by approximately $8 million, resulting in a corresponding reduction in bad debt expense of $8 million. In addition, Starz Entertainment recovered approximately $4 million of additional accounts receivable from various customers for which a reserve had previously been provided. The 2003 decrease in SG&A expenses 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 and the reversal of an accrual recorded in prior years. The higher bad debt expense in 2002 resulted from the bankruptcy filing of Adelphia Communications Corporation.

Starz Entertainment has outstanding phantom stock appreciation rights held by certain of its officers and employees (including its former chief executive officer). Compensation relating to the phantom stock appreciation rights has been recorded based upon the estimated fair value of Starz Entertainment. 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 Entertainment. Starz Entertainment's stock compensation decreased in 2003 as a result of a decrease in the estimated equity value of Starz Entertainment.

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 Entertainment, of which $1,195 million relates to enterprise-level goodwill and is included in Corporate and Other.

Discovery. Discovery's revenue increased 18.5% and 16.2% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. These increases are due to 12.2% and 21.8% increases in advertising revenue and 30.5% and 15.7% increases in affiliate revenue, respectively. The 2004 increase in advertising revenue was due to an increase in advertising rates in the United States and positive developments in International advertising sales. Although advertising rates increased, the advertising revenue growth was slowed in 2004 due primarily to ratings challenges on one of its U.S. networks. Affiliate revenue increased in 2004 due to overall subscription unit growth, subscription units coming off free periods on developing domestic networks, and the extension of domestic networks carriage arrangements with large affiliates that reduced the amortization of launch costs during the period. The 2003 increase in advertising revenue was due to increased audience delivery in the United States and Europe and an increase in overall subscription units. Affiliate revenue increased in 2003 due to overall subscription unit growth, combined with subscription units coming off free periods on developing domestic networks.

Discovery's operating expenses increased 12.6% and 7.4% in 2004 and 2003, respectively. Such increases were due primarily to a 19.4% and 13.3% increase in programming costs, respectively, as the company continues to invest in original programming. Discovery's SG&A expenses increased 16.5% and 15.1% in 2004 and 2003, respectively. These increases were driven by increased personnel and general and administrative expense, combined with increased marketing and sales related expenses. As a percent of revenue Discovery's SG&A expenses were 36.2%, 36.8% and 37.2% in 2004, 2003 and 2002, respectively, due to Discovery continuing to realize economies of scale.

Court TV. Court TV's revenue increased 22.0% and 25.7% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. These increases are due to 21.1% and 26.9% increases in advertising revenue and 26.9% and 20.6% increases in net affiliate revenue. Advertising revenue increased as a result of a 7.6% and a 7.5% increase in subscribers in 2004 and 2003, respectively, combined with continued ratings strength. Affiliate revenue increased in both periods due to subscriber growth combined with decreases in launch support from 2003 to 2004.

Court TV's operating expenses, which are comprised primarily of programming costs, increased 20.0% in 2004 and decreased 11.8% in 2003. 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 into 2004. Operating costs increased in 2004 due to increased investment in original and acquired programming. Court TV's SG&A expenses increased 25.9% in 2004 due to growth in the business combined with a significant increase in marketing initiatives. SG&A expenses were relatively comparable from 2002 to 2003. As a percent of revenue, SG&A expenses increased from 40.8% in 2003 to 42.0% in 2004 due to the increased marketing investment.

GSN. GSN's revenue increased 15.8% and 43.4% for the years ended December 31, 2004 and 2003, respectively, as compared to the corresponding prior year. These increases are due to 13.4% and 30.8% increases in advertising revenue and 18.9% and 60.7% increases in net affiliate revenue. Affiliate revenue increased due to 5.7% and 13.2% growth in subscribers during 2004 and 2003, respectively, combined with modest rate increases in both years and a decrease in amortization of subscriber launch costs in 2003. 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 higher rates and an increased percentage of inventory sold to advertisers.

GSN's operating expenses, which are comprised primarily of programming costs, increased 17.9% and 46.7% in 2004 and 2003, respectively, as compared to the corresponding prior year and represented 47.4% and 46.6% of revenue for 2004 and 2003, respectively. The increase in operating costs in both years is due primarily to continued investments in programming. GSN's SG&A expenses increased 19.8% in 2004 due to a 86.6% increase in marketing expense associated with the rebranding of the network. SG&A expenses in 2003 were comparable to the prior year. As a percent of revenue, SG&A expenses increased from 52.6% in 2003 to 54.5% in 2004.

Liquidity and Capital Resources

Corporate

Our sources of liquidity include our available cash balances, cash generated by the operating activities of our privately-owned subsidiaries (to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted), proceeds from asset sales, monetization of our public investment portfolio (including derivatives), debt and equity issuances, and dividend and interest receipts.

During the year ended December 31, 2004, our primary corporate uses of cash were investments in and loans to cost investees ($930 million), debt repayments pursuant to our debt reduction program ($994 million), cash used by discontinued operations ($833 million) and the exchange of stock of one of our subsidiaries that held cash and other assets for shares of our common stock held by Comcast ($547 million). These uses of cash were funded primarily by cash on hand, cash transfers from our subsidiaries ($887 million), proceeds from sales of assets ($483 million) and net proceeds from our various derivative transactions ($492 million).

At December 31, 2004, we have $1,725 million in cash and marketable debt securities, $8,612 million of non-strategic AFS securities (including related derivatives with an estimated fair value of $644 million) and $10,776 million of total face amount of corporate debt. In addition, we own $9,667 million of News Corp. common stock and $3,824 million of IAC/InterActiveCorp common stock, which we consider to be strategic assets. Accordingly, we believe that our liquidity position at December 31, 2004 is very strong.

Our projected uses of cash in 2005 include $1.0 billion of additional debt repayments as we complete the debt reduction program that we initiated in the fourth quarter of 2003. In addition, we may make additional investments in existing or new businesses. However, we are unable to quantify such investments at this time.

We expect that our investing and financing activities, including the aforementioned debt reduction plan, 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. Based on the put price and assuming we physically settle each of our AFS Derivatives and excluding any provision for income taxes, we would be entitled to cash proceeds of approximately $1,014 million in 2005, $396 million in 2006, $387 million in 2007, $101 million in 2008, $1,383 million in 2009, and $3,021 million thereafter upon settlement of our AFS Derivatives.

Prior to the maturity of our equity collars, the terms of certain of our equity and narrow-band collars allow us to borrow against the future put option proceeds at LIBOR or LIBOR plus an applicable spread, as the case may be. As of December 31, 2004, such borrowing capacity aggregated approximately $5,900 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph.

Based on currently available information, we expect to receive approximately $125 million in dividend and interest income during the year ended December 31, 2005. Based on current debt levels and current interest rates, we expect to make interest payments of approximately $490 million during the year ended December 31, 2005, primarily all of which relates to parent company debt.

As of December 31, 2004, each of Standard and Poor's Rating Service ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") rated our senior debt at the lowest level of investment grade. At that date, S&P and Moody's both had a negative ratings outlook, while Fitch had a stable outlook. Subsequent to December 31, 2004, S&P affirmed its ratings, but placed us on CreditWatch, and Fitch lowered its outlook to negative and placed us on Rating Watch. Neither S&P nor Fitch provided an estimate of the time for their respective Watch period. However, at the conclusion of the Watch period, we anticipate that each agency will either (1) affirm our rating and outlook, or (2) downgrade our rating to a level below investment grade. At this time we are unable to predict which of these outcomes will occur. 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 corporate borrowings. Notwithstanding the foregoing, we do not believe that a downgrade would adversely impact the ability of our subsidiaries to arrange bank financing or our ability to borrow against the value of our equity collars.

Subsidiaries

In 2004, our subsidiaries funded capital expenditures ($226 million), acquisitions ($137 million), an increase in working capital ($293 million) and the repurchase of certain subsidiary common stock ($171 million) with cash on hand and cash generated by their operating activities.

Our subsidiaries currently expect to spend approximately $435 million for capital expenditures in 2005, including $275 million by QVC. These amounts are expected to be funded by the cash flows of the respective subsidiary.

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.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Starz Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming 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 for exhibition by Starz Entertainment at December 31, 2004 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2004 is payable as follows: $200 million in 2005 and $16 million in 2006.

Starz Entertainment has also contracted to pay Programming Fees for the rights to exhibit films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2004. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $538 million in 2005; $256 million in 2006; $125 million in 2007; $108 million in 2008; $98 million in 2009 and $134 million thereafter.

In addition, Starz Entertainment is also obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company through 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment from 2005 through 2010 and all qualifying films released theatrically in the United States by Revolution Studios through 2006. Films are generally available to Starz Entertainment for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, Starz Entertainment has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million. This option expires December 31, 2007. If made, Starz Entertainment's payments to Sony would be amortized ratably over the extension period beginning in 2011. An extension of this agreement would also result in the payment by Starz Entertainment of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, Starz Entertainment is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period.

Liberty guarantees Starz Entertainment's obligations under the Disney and Sony output agreements. At December 31, 2004, Liberty's guarantees for studio output obligations for films released by such date aggregated $763 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Entertainment, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantees of these obligations.

At December 31, 2004, we guaranteed ¥4.7 billion ($46 million) of the bank debt of Jupiter Telecommunications Co., Ltd ("J-COM"), a former equity affiliate that provides broadband services in Japan. Our guarantees expire as the underlying debt matures and is repaid. The debt maturity dates range from 2004 to 2018. Our investment in J-COM was attributed to LMI in the spin off. In connection with the spin off of LMI, LMI has agreed to indemnify us for any amounts we are required to fund under these guarantees.

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations is summarized below:

Contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	Payments due by period				
	amounts in millions				
Long-term debt(1)	$10,885	10	3,000	2,724	5,151
Long-term derivative instruments	1,889	1,179	336	13	361
Interest expense(2)	6,714	480	816	676	4,742
Operating lease obligations	277	62	88	58	69
Programming Fees(3)	1,475	738	397	206	134
Purchase orders and other obligations	760	737	20	3	—
Total contractual payments	$22,000	3,206	4,657	3,680	10,457

(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.

(2) Assumes the interest rates on our floating rate debt remain constant at the December 31, 2004 rates.

(3) Does not include Programming Fees for films not yet released theatrically, as such amounts cannot be estimated.

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 fourth quarter of 2004, AT&T requested a refund from us of $70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and were able to carry back to offset taxable income previously offset by our losses. In the event AT&T generates capital losses in 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 an additional $229 million (excluding any accrued interest) to AT&T. We are currently unable to estimate how much, if any, we will ultimately refund to AT&T, but we believe that any such refund, if made, would 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.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies, such as Liberty, are required to adopt Statement 123R as of the beginning of the first interim period that begins after June 15, 2005. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after July 1, 2005. The accounting for awards granted, but not vested, prior to July 1, 2005 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 123 was effective. We expect to adopt Statement 123R on a prospective basis, and our financial statements for periods that begin after June 15, 2005 will include pro forma information as though the standard had been adopted for all periods presented.

While we have not yet quantified the impact of adopting Statement 123R, we believe that such adoption could have a significant impact on our operating income and net earnings in the future.

Critical Accounting Estimates

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 estimates 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 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 43.5% and 7.4%, respectively, of our total assets at December 31, 2004 and 36.1% and 6.7%, respectively, at December 31, 2003. We account for these investments pursuant to Statement of Financial Accounting Standards No. 115, Statement of Financial Accounting Standards No. 142, Accounting Principles Board Opinion No. 18, EITF Topic 03-1 and SAB No. 59. 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 prices of the investments 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 made 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, 2004, we had unrealized losses of $15 million related to one of our AFS equity 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 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 ("AFS Derivatives") that we use to manage market risk related to certain of our AFS 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, 2004, the expected volatilities used to value our AFS Derivatives generally ranged from 20% to 30% and the discount rates ranged from 3.1% to 4.8%. 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, 2004	$1,340	
25% increase in discount rate	$1,138	(202)
25% decrease in discount rate	$1,550	210
25% increase in expected volatilities	$1,298	(42)
25% decrease in expected volatilities	$1,386	46

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, 2004 and 2003. 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.

In 2003, Starz Entertainment obtained 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 Entertainment, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill related to Starz Entertainment. 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 Entertainment 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 Entertainment'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, Ascent Media recorded a long-lived asset impairment charge of $84 million. In 2002, we also recorded a $92 million impairment charge related to OpenTV Corp due to slower than expected growth in the interactive television industry and cutbacks in capital expenditures by broadband service providers.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

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 subsidiaries 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, 2004, the face amount of our fixed rate debt (considering the effects of interest rate swap agreements) was $7,149 million, which had a weighted average interest rate of 4.7%. Our variable rate debt of $3,736 million had a weighted average interest rate of 3.9% at December 31, 2004. Had market interest rates been 100 basis points higher (representing an approximate 26% increase over our variable rate debt effective cost of borrowing) throughout the year ended December 31, 2004, we would have recognized approximately $37 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, 2004, we would have recognized an additional unrealized loss on derivative instruments of $110 million. For additional information regarding the impacts of changes in discount rates and volatilities on our derivative instruments, see "Critical Accounting Estimates—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 have equal fair values 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 cash 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 and may restrict our ability to borrow against the derivative.

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 our 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 our 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, 2004	$1,618	291	(445)	(124)	1,340
5% increase in market prices	$1,418	290	(423)	(141)	1,144
10% increase in market prices	$1,218	289	(401)	(158)	948
5% decrease in market prices	$1,816	292	(467)	(108)	1,533
10% decrease in market prices	$2,013	292	(489)	(92)	1,724

(1) Includes narrow-band collars.

At December 31, 2004, the fair value of our AFS securities was $21,763 million. Had the market price of such securities been 10% lower at December 31, 2004, the aggregate value of such securities would have been $2,176 million lower resulting in a decrease to unrealized gains 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.

In connection with certain of our AFS Derivatives, we periodically borrow shares of the underlying securities from a counterparty and deliver these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that we own have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at our option by delivering shares to the counterparty. The counterparty can terminate these arrangements upon the occurrence of certain events which limit the trading volume of the underlying security. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the consolidated statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized gains or losses in other comprehensive earnings.

We are exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's and Ascent Media's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are translated at actual exchange rates when known, or at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at actual exchange rates when known, or at the average rate for the period. Accordingly, we may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

From time to time we enter into total return debt swaps in connection with our own or third-party public and private indebtedness. We initially post collateral with the counterparty equal to 10% of the value of the underlying 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, 2004, the aggregate purchase price of debt securities underlying total return debt swap arrangements related to our senior notes and debentures was $147 million. As of such date, we had posted cash collateral equal to $15 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 $132 million. The posting of such collateral and the related settlement of the agreements would reduce our outstanding debt by an equal amount.

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 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 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, 2004
	amounts in millions
Counterparty A	$ 541
Counterparty B	506
Counterparty C	411
Counterparty D	342
Counterparty E	308
Other	320
	$2,428

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, 2004 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.

See page F-31 for *Management's Report on Internal Control Over Financial Reporting*.

See page F-32 for *Report of Independent Registered Public Accounting Firm* for our accountant's attestation regarding our internal controls over financial reporting.

There has been no change in the Company's internal controls over financial reporting that occurred during the three months ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Media Corporation's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles; (3) provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements and related disclosures.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company assessed the design and effectiveness of internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') in *Internal Control—Integrated Framework*.

Based upon our assessment using the criteria contained in COSO, management has concluded that, as of December 31, 2004, Liberty Media Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Media Corporation's independent registered public accountants audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on management's assessment of the Company's internal control over financial reporting. This report appears on page F-32.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing on page F-31, that Liberty Media Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management of Liberty Media Corporation is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the internal control over financial reporting of Liberty Media Corporation based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements and related disclosure in accordance with generally accepted accounting principles; (3) provide reasonable assurance that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Liberty Media Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Also, in our opinion, Liberty Media Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2004 and December 31, 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 14, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP
Denver, Colorado
March 14, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2004 and 2003, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the internal control over financial reporting of Liberty Media Corporation as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
March 14, 2005

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003*
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,421	2,974
Trade and other receivables, net	1,186	1,049
Inventory, net	712	588
Prepaid expenses and program rights	579	479
Derivative instruments (note 7)	827	543
Other current assets	63	352
Total current assets	4,788	5,985
Investments in available-for-sale securities and other cost investments (note 6)	21,847	19,566
Long-term derivative instruments (note 7)	1,601	3,247
Investments in affiliates, accounted for using the equity method (note 8)	3,734	3,613
Property and equipment, at cost	2,105	1,869
Accumulated depreciation	(713)	(492)
	1,392	1,377
Intangible assets not subject to amortization (note 2):		
Goodwill	9,073	8,911
Trademarks	2,385	2,385
	11,458	11,296
Intangible assets subject to amortization, net (note 2)	4,440	4,821
Other assets, at cost, net of accumulated amortization	770	577
Assets of discontinued operations (note 5)	151	3,743
Total assets	$50,181	54,225

* See note 5.

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003*
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 457	402
Accrued interest payable	143	152
Other accrued liabilities	694	628
Accrued stock compensation	236	190
Program rights payable	200	177
Derivative instruments (note 7)	1,179	854
Other current liabilities	298	160
Total current liabilities	3,207	2,563
Long-term debt (note 9)	8,566	9,417
Long-term derivative instruments (note 7)	1,812	1,756
Deferred income tax liabilities (note 10)	10,734	10,678
Other liabilities	826	377
Liabilities of discontinued operations (note 5)	151	299
Total liabilities	25,296	25,090
Minority interests in equity of subsidiaries	299	293
Stockholders' equity (note 11):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Series A common stock $.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 2,678,895,158 shares at December 31, 2004 and 2,669,835,166 shares at December 31, 2003	27	27
Series B common stock $.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at December 31, 2004 and 217,100,515 shares at December 31, 2003	1	2
Additional paid-in capital	33,765	39,001
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	4,226	3,246
AOCE from discontinued operations	1	(45)
Unearned compensation	(64)	(98)
Accumulated deficit	(13,245)	(13,291)
	24,711	28,842
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2004)	(125)	—
Total stockholders' equity	24,586	28,842
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$ 50,181	54,225

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2004, 2003 and 2002

	2004	2003*	2002*
	amounts in millions, except per share amounts		
Revenue:			
Net sales from electronic retailing	$ 5,687	1,973	—
Communications and programming services	1,995	1,765	1,804
	7,682	3,738	1,804
Operating costs and expenses:			
Cost of sales—electronic retailing services	3,594	1,258	—
Operating	1,736	1,161	943
Selling, general and administrative ("SG&A")	815	519	458
Stock compensation—SG&A (note 2)	101	(88)	(46)
Litigation settlement	(42)	—	—
Depreciation	247	195	164
Amortization	489	270	178
Impairment of long-lived assets (note 2)	—	1,362	187
	6,940	4,677	1,884
Operating income (loss)	742	(939)	(80)
Other income (expense):			
Interest expense	(615)	(529)	(410)
Dividend and interest income	131	164	183
Share of earnings (losses) of affiliates, net (note 8)	97	45	(89)
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	(1,284)	(662)	2,139
Gains (losses) on dispositions, net (notes 6, 8 and 11)	1,406	1,125	(541)
Nontemporary declines in fair value of investments (note 6)	(129)	(22)	(5,806)
Other, net	(24)	(55)	1
	(418)	66	(4,523)
Earnings (loss) from continuing operations before income taxes and minority interest	324	(873)	(4,603)
Income tax benefit (expense) (note 10)	(158)	(354)	1,512
Minority interests in losses (earnings) of subsidiaries	(5)	2	29
Earnings (loss) from continuing operations before cumulative effect of accounting change	161	(1,225)	(3,062)
Earnings (loss) from discontinued operations, net of taxes (note 5)	(115)	3	(740)
Cumulative effect of accounting change, net of taxes (note 2)	—	—	(1,528)
Net earnings (loss)	$ 46	(1,222)	(5,330)
Earnings (loss) per common share (note 2):			
Basic and diluted earnings (loss) from continuing operations	$ .06	(.44)	(1.18)
Discontinued operations	(.04)	—	(.29)
Cumulative effect of accounting change, net of taxes	—	—	(.59)
Basic and diluted net earnings (loss)	$ .02	(.44)	(2.06)
Number of common shares outstanding	2,856	2,748	2,590

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2004, 2003 and 2002

	2004	2003*	2002*
	amounts in millions		
Net earnings (loss)	$ 46	(1,222)	(5,330)
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	30	42	77
Unrealized holding gains (losses) arising during the period	1,489	3,343	(4,160)
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(488)	(628)	3,598
Other comprehensive earnings (loss) from discontinued operations (note 5)	(61)	218	(129)
Other comprehensive earnings (loss)	970	2,975	(614)
Comprehensive earnings (loss)	$1,016	1,753	(5,944)

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2004, 2003 and 2002

	Preferred stock	Common stock Series A	Common stock Series B	Additional paid-in capital	AOCE	AOCE from discontinued operations	Unearned compensation	Accumulated deficit	Treasury stock	Total stockholders' equity
	amounts in millions									
Balance at January 1, 2002	$—	24	2	35,996	974	(134)	—	(6,739)	—	30,123
Net loss	—	—	—	—	—	—	—	(5,330)	—	(5,330)
Other comprehensive loss	—	—	—	—	(485)	(129)	—	—	—	(614)
Issuance of common stock for acquisitions	—	—	—	195	—	—	—	—	—	195
Issuance of common stock pursuant to rights offering	—	1	—	617	—	—	—	—	—	618
Purchases of Series A common stock	—	—	—	(281)	—	—	—	—	—	(281)
Series A common stock put options, net of cash received (note 11)	—	—	—	(29)	—	—	—	—	—	(29)
Balance at December 31, 2002	—	25	2	36,498	489	(263)	—	(12,069)	—	24,682
Net loss	—	—	—	—	—	—	—	(1,222)	—	(1,222)
Other comprehensive earnings	—	—	—	—	2,757	218	—	—	—	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 Series A common stock	—	—	—	(437)	—	—	—	—	—	(437)
Issuance of restricted stock	—	—	—	102	—	—	(102)	—	—	—
Amortization of deferred compensation	—	—	—	—	—	—	4	—	—	4
Series A common stock put options, net of cash received (note11)	—	—	—	37	—	—	—	—	—	37
Gain in connection with the issuance of stock of a subsidiary	—	—	—	6	—	—	—	—	—	6
Balance at December 31, 2003	—	27	2	39,001	3,246	(45)	(98)	(13,291)	—	28,842
Net earnings	—	—	—	—	—	—	—	46	—	46
Other comprehensive earnings (loss)	—	—	—	—	1,031	(61)	—	—	—	970
Issuance of Series A common stock for acquisitions	—	—	—	152	—	—	—	—	—	152
Issuance of Series A common stock in exchange for Series B common stock (note 11)	—	1	(1)	125	—	—	—	—	(125)	—
Acquisition of Series A common stock (note 11)	—	(1)	—	(1,016)	—	—	—	—	—	(1,017)
Amortization of deferred compensation	—	—	—	—	—	—	31	—	—	31
Distribution to stockholders for spin off of Liberty Media International ("LMI") (note 5)	—	—	—	(4,512)	(51)	107	—	—	—	(4,456)
Stock compensation for Liberty options held by LMI employees (note 13)	—	—	—	(4)	—	—	—	—	—	(4)
Stock compensation for LMI options held by Liberty employees (note 13)	—	—	—	17	—	—	—	—	—	17
Cancellation of restricted stock	—	—	—	(3)	—	—	3	—	—	—
Other	—	—	—	5	—	—	—	—	—	5
Balance at December 31, 2004	$—	27	1	33,765	4,226	1	(64)	(13,245)	(125)	24,586

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004, 2003 and 2002

	2004	2003*	2002*
	amounts in millions (see note 3)		
Cash flows from operating activities:			
Earnings (loss) from continuing operations	$ 161	(1,225)	(4,590)
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided (used) by operating activities:			
Cumulative effect of accounting change, net of taxes	—	—	1,528
Depreciation and amortization	736	465	342
Impairment of long-lived assets	—	1,362	187
Stock compensation	101	(88)	(46)
Payments of stock compensation	(10)	(360)	(117)
Noncash interest expense	96	76	14
Share of losses (earnings) of affiliates, net	(97)	(45)	89
Nontemporary decline in fair value of investments	129	22	5,806
Realized and unrealized losses (gains) on derivative instruments, net	1,284	662	(2,139)
Losses (gains) on disposition of assets, net	(1,406)	(1,125)	541
Minority interests in earnings (losses) of subsidiaries	5	(2)	(29)
Deferred income tax expense (benefit)	(197)	279	(1,519)
Other noncash charges	20	63	25
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Receivables	(87)	(180)	(34)
Inventory	(124)	(14)	—
Prepaid expenses and other current assets	(351)	(152)	(85)
Payables and other current liabilities	657	179	13
Net cash provided (used) by operating activities	917	(83)	(14)
Cash flows from investing activities:			
Cash proceeds from dispositions	483	2,449	1,033
Premium proceeds from origination of derivatives	193	763	521
Net proceeds from settlement of derivatives	322	1,172	410
Investments in and loans to equity affiliates	(30)	(48)	(65)
Investments in and loans to cost investees	(930)	(2,509)	(228)
Cash paid for acquisitions, net of cash acquired	(137)	(711)	(44)
Capital expended for property and equipment	(226)	(177)	(147)
Net sales of short term investments	272	95	148
Repayments of notes receivable from LMI	117	—	—
Other investing activities, net	(14)	9	14
Net cash provided by investing activities	50	1,043	1,642
Cash flows from financing activities:			
Borrowings of debt	—	4,155	179
Repayments of debt	(1,006)	(3,480)	(772)
Purchases of Liberty Series A common stock	(547)	(437)	(281)
Repurchases of subsidiary common stock	(171)	—	—
Proceeds from issuance of common stock	—	141	618
Other financing activities, net	37	(42)	(2)
Net cash provided (used) by financing activities	(1,687)	337	(258)
Net cash used by discontinued operations	(833)	(485)	(1,272)
Net increase (decrease) in cash and cash equivalents	(1,553)	812	98
Cash and cash equivalents at beginning of year	2,974	2,162	2,064
Cash and cash equivalents at end of year	$ 1,421	2,974	2,162

* See note 5.

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 controlling and noncontrolling ownership of interests in subsidiaries and other companies, is primarily engaged in the electronic retailing, media, communications and entertainment industries in the United States, Europe and Asia. 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 services, and (iii) telephony and other technology ventures. Prior to the June 7, 2004 spin off of Liberty Media International, Inc., Liberty was also engaged in international broadband distribution of video, voice and data services. See note 5.

(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 $77 million and $91 million at December 31, 2004 and 2003, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions		Deductions— write-offs	Balance end of year
		Charged to expense	Acquisitions		
		amounts in millions			
2004	$91	21	—	(35)	77
2003	$27	18	62	(16)	91
2002	$18	17	1	(9)	27

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.

A summary of activity in the inventory obsolescence account is as follows:

	Balance beginning of year	Additions: Charged to expense	Additions: Acquisitions	Deductions— write-offs	Balance end of year
	amounts in millions				
2004	$93	54	—	(59)	88
2003	$—	19	93	(19)	93

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. 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 and interest rate swaps to manage fair value and cash flow risk associated with many of its investments and some of its variable rate debt. 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.

Liberty accounts for its derivatives pursuant to 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 not designated as a hedge, changes in the fair value of the derivative are recognized in earnings.

During 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.

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

Adoption of Statement No. 142

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (''Statement 142''). Statement 142 requires that goodwill and other intangible assets with indefinite useful lives (collectively, ''indefinite lived intangible assets'') no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Equity method goodwill is also no longer amortized, but continues to be considered for impairment under Accounting Principles Board Opinion No. 18. Statement 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives 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. The Company recognized a $1,528 million transitional impairment loss, net of taxes of $24 million, as the cumulative effect of a change in accounting principle in 2002. The foregoing transitional impairment loss includes an adjustment of $61 million for the Company's proportionate share of transition adjustments that its equity method affiliates recorded.

Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2004 are as follows:

	QVC, Inc.	Starz Entertainment Group LLC	Other(3)	Total
		amounts in millions		
Balance at December 31, 2003	$3,889	1,383	3,639	8,911
Acquisitions(1)	39	—	23	62
Other(2)	120	—	(20)	100
Balance at December 31, 2004	$4,048	1,383	3,642	9,073

(1) During the year ended December 31, 2004, subsidiaries of Liberty completed several small acquisitions and the buyout of minority partners for aggregate cash consideration of $137 million. In connection with these acquisitions, Liberty recorded additional goodwill of $62 million, which represents the excess of the purchase price over the estimated fair value of tangible and identifiable intangible assets acquired.

(2) Other activity for QVC, Inc. ("QVC") relates primarily to the repurchase of QVC stock held by employees of QVC. The differences between the carrying value of the minority interest acquired and the purchase price is recorded as goodwill.

(3) As noted above, the Company's enterprise-level goodwill of $3,148 million is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. Total enterprise-

level goodwill at December 31, 2004, which is included in Other, is allocated as follows (amounts in millions).

Entity	Allocable goodwill
Discovery Communications, Inc. (“Discovery”)	$1,771
QVC	1,220
Courtroom Television Network, LLC (“Court TV”)	124
GSN, LLC (“GSN”)	17
Other	16
	$3,148

Starz Entertainment Group LLC (“Starz Entertainment”) obtained an independent third party valuation in connection with its 2003 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 Entertainment, indicated that the fair value of this reporting unit was less than its carrying value. This reporting unit fair value was then used to calculate an implied value of the goodwill (including $1,195 million of allocated enterprise-level goodwill) related to Starz Entertainment. The $1,352 million excess of the carrying amount of the goodwill over its implied value was recorded as an impairment charge in the fourth quarter of 2003. The reduction in the value of Starz Entertainment 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 Entertainment’s services and (2) lower per subscriber rates under a new affiliation agreement with Comcast.

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 $11 million related to other consolidated subsidiaries.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2004			December 31, 2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
			amounts in millions			
Distribution rights	$2,618	(589)	2,029	2,580	(375)	2,205
Customer relationships	2,347	(224)	2,123	2,336	(56)	2,280
Other	636	(348)	288	591	(255)	336
Total	$5,601	(1,161)	4,440	5,507	(686)	4,821

Amortization of intangible assets with finite useful lives was $489 million, $270 million and $178 million for the years ended December 31, 2004, 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):

2005	$469
2006	$434
2007	$390
2008	$358
2009	$337

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.

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 earnings 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 year ended December 31, 2004 and the four months ended December 31, 2003 aggregated $1,089 million and $340 million, respectively.
- Programming revenue is recognized in the period during which programming is provided, pursuant to affiliation agreements.
- 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.
- Distribution revenue is recognized in the period that services are rendered.

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 $53 million, $22 million and $40 million for the years ended December 31, 2004, 2003 and 2002, 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 SARs and options with tandem SARs is the same under APB Opinion No. 25 and Statement 123. Accordingly, no pro forma adjustment for such awards is included in the following table.

	Years ended December 31,		
	2004	2003	2002
	amounts in millions, except per share amounts		
Earnings (loss) from continuing operations	$161	(1,225)	(3,062)
Add stock compensation as determined under the intrinsic value method, net of taxes	4	5	—
Deduct stock compensation as determined under the fair value method, net of taxes	(51)	(55)	(78)
Pro forma earnings (loss) from continuing operations	$114	(1,275)	(3,140)
Basic and diluted earnings (loss) from continuing operations per share:			
As reported	$ .06	(.44)	(1.18)
Pro forma	$ .04	(.46)	(1.21)

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 ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS 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. The basic EPS calculation is based on 2,856 million weighted average shares outstanding for the year ended December 31, 2004. The diluted EPS calculation for 2004 includes 14 million potential common shares. However, due to the relative insignificance of these dilutive securities, their inclusion does not impact the EPS amount as reported in the accompanying consolidated statement of operations. Excluded from diluted earnings per share for the years ended December 31, 2004, 2003 and 2002, are 72 million, 84 million and 78 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2004 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 (i) the estimate of the fair value of its long-lived assets (including goodwill) and any resulting impairment charges, (ii) its accounting for income taxes, (iii) the fair value of its derivative instruments and (iv) 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 to provide it with accurate financial information prepared in accordance with GAAP that Liberty uses in the application of the equity method. In addition, Liberty relies on audit reports that are provided by the affiliates' independent auditors on the financial statements of such affiliates. 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.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to recognize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to measure the cost of employee services received in exchange for an award of liability instruments (such as stock appreciation rights) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies, such as Liberty, are required to adopt Statement 123R as of the beginning of the first interim period that begins after June 15, 2005. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after July 1, 2005. The accounting for awards granted, but not vested, prior to July 1, 2005 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 123 was effective. Liberty expects to adopt Statement 123R on a prospective basis, and will include in its financial statements for periods that begin after June 15, 2005 pro forma information as though the standard had been adopted for all periods presented.

While Liberty has not yet quantified the impact of adopting Statement 123R, it believes that such adoption could have a significant impact on its operating income and net earnings in the future.

(3) *Supplemental Disclosures to Consolidated Statements of Cash Flows*

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$146	9,996	424
Net liabilities assumed	(19)	(968)	(57)
Long-term debt issued	—	(4,000)	—
Deferred tax liability	—	(1,612)	(14)
Minority interest	10	(49)	(114)
Common stock issued	—	(2,656)	(195)
Cash paid for acquisitions, net of cash acquired	$137	711	44
Cash paid for interest	$515	425	398
Cash paid for income taxes	$ 51	57	—

(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 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 year ended December 31, 2003 was prepared assuming the acquisition of QVC occurred on January 1, 2003. These pro forma amounts are not necessarily indicative of operating results that would have occurred if the QVC acquisition had occurred on January 1, 2003 (amounts in millions, except per share amounts)

Revenue	$ 6,653
Loss from continuing operations	$(1,178)
Net loss	$(1,175)
Loss per common share	$ (.41)

(5) ***Discontinued Operations***

Spin Off of Liberty Media International, Inc.

On June 7, 2004 (the "Spin Off Date"), Liberty completed the spin off (the "Spin Off") of its wholly-owned subsidiary, Liberty Media International, Inc. ("LMI"), to its shareholders. Substantially all of the assets and businesses of LMI were attributed to Liberty's International Group segment. In connection with the Spin Off, holders of Liberty common stock on June 1, 2004 (the "Record Date") received 0.05 of a share of LMI Series A common stock for each share of Liberty Series A common stock owned at 5:00 pm, New York City time, on the Record Date and 0.05 of a share of LMI Series B common stock for each share of Liberty Series B common stock owned at 5:00 pm, New York City time, on the Record Date. The Spin Off is intended to qualify as a tax-free spin off. For accounting purposes, the Spin Off is deemed to have occurred on June 1, 2004, and no gain or loss was recognized by Liberty in connection with the Spin Off.

In addition to the assets in Liberty's International Group operating segment, Liberty also contributed certain monetary assets to LMI in connection with the Spin Off. These monetary assets consisted of $50 million in cash, 5 million American Depository Shares for preferred, limited voting ordinary shares of News Corporation ("News Corp.") and related derivatives, and a 99.9% economic interest in 345,000 shares of preferred stock of ABC Family Worldwide, Inc.

Summarized combined financial information for LMI is as follows:

Combined Balance Sheets

	May 31, 2004(1)	December 31, 2003
	amounts in millions	
Cash	$ 1,819	13
Current assets	542	18
Equity investments	1,914	1,741
Cost investments	1,201	450
Property and equipment, net	3,221	98
Goodwill and franchise costs	2,628	689
Deferred tax assets	—	458
Other assets	468	84
Total assets	$11,793	3,551
Current liabilities	$ 1,170	83
Note payable to Liberty	117	—
Long term debt	4,211	42
Deferred income tax liabilities	511	—
Other liabilities	267	8
Minority interests	1,061	—
Equity	4,456	3,418
Total liabilities and equity	$11,793	3,551

Combined Statements of Operations

	Five months ended May 31, 2004(1)	Years ended December 31, 2003	2002
	amounts in millions		
Revenue	$ 956	109	104
Operating, selling, general and administrative expenses	(682)	(94)	(81)
Depreciation and amortization	(368)	(16)	(13)
Impairment of long-lived assets	—	—	(46)
Operating loss	(94)	(1)	(36)
Other income (expense)	(54)	50	(490)
Income tax benefit (expense)	(30)	(28)	178
Minority interests	92	—	—
Earnings (loss) before cumulative effect of accounting change	(86)	21	(348)
Cumulative effect of accounting change	—	—	(238)
Net earnings (loss)	$ (86)	21	(586)

(1) LMI's financial position and results of operations for the five months ended May 31, 2004 include UnitedGlobalCom, Inc., which was consolidated beginning January 1, 2004.

Following the Spin Off, LMI and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the Spin Off, LMI and Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and LMI after the Spin Off and to provide for an orderly transition. These agreements include a Reorganization Agreement, a Facilities and Services Agreement, a Tax Sharing Agreement and a Short-Term Credit Facility.

The Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the Spin Off and cross indemnities. Pursuant to the Facilities and Services Agreement, Liberty provides LMI with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. LMI reimburses Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for LMI's allocable portion of facilities costs and costs associated with any shared services or personnel.

Under the Tax Sharing Agreement, Liberty generally is responsible for U.S. federal, state and local and foreign income taxes owing with respect to consolidated returns which include both Liberty and LMI. LMI is responsible for all other taxes with respect to returns which include LMI, but do not include Liberty whether accruing before, on or after the Spin Off. The Tax Sharing Agreement requires that LMI will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the Spin Off from qualifying as a tax-free transaction. Moreover, LMI has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the Spin Off from qualifying as a tax-free transaction.

Pursuant to the Short-Term Credit Facility, Liberty agreed to make loans to LMI from time to time up to an aggregate principal amount of $383 million. In addition, certain subsidiaries of LMI had notes payable to Liberty in the aggregate amount of $117 million at the date of the Spin Off. During the third quarter of 2004, LMI completed a rights offering, and used a portion of the cash proceeds to repay all principal and accrued interest due under the notes payable and Short-Term Credit Facility. Subsequent to this repayment, the Short-Term Credit Facility was terminated.

DMX Music

During the fourth quarter of 2004, the executive committee of the board of directors of Liberty approved a plan to dispose of Liberty's approximate 56% ownership interest in Maxide Acquisition, Inc. (d/b/a DMX Music, "DMX"). DMX is principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses and was included in Liberty's Networks Group operating segment. On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. As a result of marketing efforts conducted prior to the bankruptcy filing, DMX has entered into an arrangement, subject to the approval by the Bankruptcy Court, to sell substantially all of its operating assets to an independent third party. Other prospective buyers will have an opportunity to submit offers to purchase all or a portion of those assets by a date to be determined by the Bankruptcy Court. After competitive bids, if any, have been submitted, Liberty expects that the Bankruptcy Court will make a determination as to the appropriate buyer, and the operating assets of DMX will be sold. In connection with its decision to dispose of its ownership interest, Liberty recognized a $23 million impairment loss to write down the carrying value of the net assets of DMX to their estimated fair value based upon the aforementioned arrangement to sell the assets. Such loss has been included in loss from discontinued operations in the accompanying consolidated financial statements.

The consolidated financial statements and accompanying notes of Liberty have been revised to reflect LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of LMI and DMX have been excluded from the respective captions in the accompanying consolidated balance sheets, statements of operations, statements of comprehensive earnings (loss) and statements of cash flows and have been reported separately in such consolidated financial statements.

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

Investments in AFS Securities, which are recorded at their respective fair market values, and other cost investments are summarized as follows:

	December 31, 2004	December 31, 2003
	amounts in millions	
News Corp.(1)	$ 9,667	7,633
IAC/InterActiveCorp ("IAC")	3,824	4,697
Time Warner Inc. ("Time Warner")(2)	3,330	3,080
Sprint Corporation ("Sprint")	2,342	1,134
Motorola(3)	1,273	1,068
Viacom, Inc. ("Viacom")	552	674
Other AFS equity securities(4)	471	382
Other AFS debt securities(1)(5)	304	985
Other cost investments and related receivables	87	178
	21,850	19,831
Less short-term investments	(3)	(265)
	$21,847	19,566

(1) Certain of Liberty's News Corp. ADSs and other AFS debt securities were contributed to LMI in connection with the Spin Off. See note 5.

(2) Includes $176 million of shares pledged as collateral for share borrowing arrangements at December 31, 2004.

(3) Includes $654 million and $533 million of shares pledged as collateral for share borrowing arrangements at December 31, 2004 and 2003, respectively.

(4) Includes $77 million of shares pledged as collateral for share borrowing arrangements at December 31, 2004.

(5) At December 31, 2004, other AFS debt securities include $276 million of investments in third-party marketable debt securities held by Liberty parent. At December 31, 2003, such investments aggregated $560 million.

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 News Corp. ADSs in the open market. Liberty recognized a pre-tax gain of $236 million on the sale of its non-voting ADSs. In early 2004, Liberty purchased additional voting ADSs and sold additional non-voting ADSs in the open market and recorded a pre-tax gain of $134 million. On a net basis, Liberty effectively exchanged 21.2 million non-voting ADSs and $693 million in cash for 48 million voting ADSs, taking into account proceeds from sales of, and unwinding of collars on, non-voting News Corp. ADSs.

In the fourth quarter of 2004, News Corp. reincorporated as a U.S. corporation and effected a reverse stock split by exchanging one share of newly issued voting stock ("NWS") or non-voting stock ("NWSA") for every two outstanding ADRs. In November 2004, Liberty entered into total return equity swaps with a financial institution with respect to 92 million shares of NWS. Pursuant to the terms of the swap, the financial institution acquired the 92 million shares of NWS for Liberty's benefit for a weighted average strike price of $17.48 (the "Strike Price"). The swaps also provided for (1) the obligation of the financial institution to pay Liberty an amount equal to the number of shares times any increase in the per-share price of NWS above the Strike Price and (2) the obligation of Liberty to pay the institution any decrease in the per-share price of NWS below the Strike Price. In December 2004, Liberty elected to terminate the swaps. In connection with such termination, Liberty delivered 86.9 million shares of NWSA with a fair market value of $1,608 million in exchange for the 92 million shares of NWS with a fair market value of $1,749 million. Accordingly, Liberty recognized a pre-tax gain on the swap transaction of $141 million, which is included in realized and unrealized gains on financial instruments and a pre-tax gain on the exchange of NWSA for NWS of $710 million, which is included in gains on dispositions. Subsequent to the completion of this transaction, Liberty has an approximate 17% economic interest and an approximate 18% voting interest in News Corp.

Vivendi Universal ("Vivendi") and IAC/InterActiveCorp

Prior to May 7, 2002, Liberty held various interests in IAC that were accounted for using the equity method. IAC owned and operated businesses in cable programming, television production, electronic retailing, ticketing operations and Internet services.

On May 7, 2002, Liberty, IAC, and Vivendi entered into a series of transactions which effectively resulted in Liberty exchanging 25 million shares of IAC, its indirect interests in certain of IAC's cable programming businesses and its 30% interest in multiThematiques S.A. 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 enterprise-level goodwill of $514 million which had been allocated to the reporting unit holding the IAC interests.

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, 2004, 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 has accounted for this investment as an AFS Security. Liberty's approximate 3% ownership interest in Vivendi was also accounted for as an AFS Security following the May 7, 2002 transaction. 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).

Nontemporary Declines in Fair Value of Investments

During the years ended December 31, 2004, 2003 and 2002, 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. Nontemporary declines in value recorded in 2002 related primarily to Liberty's investments in Time Warner Inc., News Corporation and Sprint Corporation. Nontemporary declines in value in 2004 and 2003 were not significant.

Unrealized Holdings Gains and Losses

Unrealized holding gains and losses related to investments in AFS Securities are summarized below.

	December 31, 2004		December 31, 2003	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	$7,292	19	5,779	1
Gross unrealized holding losses	$ (15)	—	—	—

Management estimates that the fair market value of all of its other cost investments approximated $151 million and $405 million at December 31, 2004 and 2003, respectively. Management calculates market values of its other cost investments using a variety of approaches including multiple of cash flow, discounted cash flow model, 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, 2004	December 31, 2003
	amounts in millions	
Assets		
Equity collars	$ 2,016	3,358
Put spread collars	291	331
Other	121	101
Total	2,428	3,790
Less current portion	(827)	(543)
	$ 1,601	3,247
Liabilities		
Exchangeable debenture call option obligations	$ 1,102	990
Put options	445	772
Equity collars	398	293
Borrowed shares	907	533
Other	139	22
Total	2,991	2,610
Less current portion	(1,179)	(854)
	$ 1,812	1,756

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 and call 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 have equal fair values 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.

Borrowed Shares

In connection with certain of its derivative instruments, Liberty periodically borrows shares of the underlying securities from a counterparty and delivers these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that are owned by Liberty have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at Liberty's option by delivering shares to the counterparty. The counterparty can terminate these arrangements upon the occurrence of certain events which limit the trading volume of the underlying security. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized gains or losses in other comprehensive earnings.

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 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.)

Under Statement 133, the call option feature of the exchangeable debentures is reported separately from the long-term debt portion in the consolidated balance sheets at fair value. Changes in the fair value of the call option obligations 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, 2004, 2003 and 2002 are comprised of the following:

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Change in fair value of exchangeable debenture call option feature	$ (129)	(158)	784
Change in the fair value of equity collars	(941)	(483)	4,032
Change in the fair value of borrowed shares	(227)	(121)	—
Change in the fair value of put options	2	108	(445)
Change in the fair value of put spread collars	8	21	71
Change in fair value of hedged AFS Securities	—	—	(2,378)
Change in fair value of other derivatives(1)	3	(29)	75
Total realized and unrealized gains (losses), net	$(1,284)	(662)	2,139

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

(8) *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, 2004 and the carrying amount at December 31, 2003:

	December 31, 2004		December 31, 2003
	Percentage Ownership	Carrying Amount	Carrying Amount
	dollar amounts in millions		
Discovery	50%	$2,946	2,864
Court TV	50%	277	260
GSN	50%	251	240
Other	various	260	249
		$3,734	3,613

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

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Discovery	$84	38	(32)
Court TV	17	(1)	(2)
GSN	(1)	—	(6)
QVC*	—	107	154
Other	(3)	(99)	(203)
	$97	45	(89)

* A consolidated subsidiary since September 2003.

Discovery

Discovery is a global media and entertainment company, that provides original and purchased video programming in the United States and over 160 other countries.

Summarized financial information for Discovery is as follows:

Consolidated Balance Sheets

	December 31, 2004	December 31, 2003
	amounts in millions	
Current assets	$ 835	858
Property and equipment	380	360
Programming rights	1,027	882
Intangible assets	445	467
Other assets	549	627
Total assets	$3,236	3,194
Current liabilities	$ 885	1,539
Long term debt	2,498	1,834
Other liabilities	161	213
Mandatorily redeemable equity of subsidiaries	320	410
Stockholders' deficit	(628)	(802)
Total liabilities and equity	$3,236	3,194

Consolidated Statements of Operations

	Years ended December 31, 2004	2003	2002
	amounts in millions		
Revenue	$2,365	1,995	1,717
Operating expenses	(846)	(752)	(700)
Selling, general and administrative	(856)	(735)	(638)
Stock compensation	(72)	(74)	(97)
Depreciation and amortization	(129)	(120)	(113)
Gain on sale of patent	22	—	—
Operating income	484	314	169
Interest expense	(167)	(159)	(163)
Other expense	(7)	(17)	(64)
Income tax benefit (expense)	(142)	(75)	10
Net earnings (loss)	$ 168	63	(48)

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 and 2002, Liberty recorded nontemporary declines in fair value aggregating $71 million and $76 million, respectively, related to certain of its other equity method investments. Such amounts are included in share of losses of affiliates.

(9) *Long-Term Debt*

Debt is summarized as follows:

	Outstanding principal December 31, 2004	Carrying value December 31, 2004	Carrying value December 31, 2003
	amounts in millions		
Parent company debt:			
Senior notes and debentures			
3.5% Senior Notes due 2006	$ 514	513	1,185
Floating Rate Senior Notes due 2006	2,463	2,463	2,463
7.875% Senior Notes due 2009	716	711	744
7.75% Senior Notes due 2009	234	235	239
5.7% Senior Notes due 2013	802	800	997
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	959	951	992
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	869	249	246
3.75% Senior Exchangeable Debentures due 2030	810	228	226
3.5% Senior Exchangeable Debentures due 2031	600	231	229
3.25% Senior Exchangeable Debentures due 2031	559	118	127
0.75% Senior Exchangeable Debentures due 2023	1,750	1,473	1,398
	10,776	8,467	9,341
Subsidiary debt	109	109	91
Total debt	$10,885	8,576	9,432
Less current maturities		(10)	(15)
Total long-term debt		$8,566	9,417

Senior Notes and Debentures

The Floating Rate Notes accrue interest at 3 month LIBOR plus a margin. At December 31, 2004 the borrowing rate was 3.99%.

Interest on the Senior Notes and Senior Debentures is payable semi-annually based on the date of issuance.

The Senior Notes and Senior Debentures are stated net of an aggregate unamortized discount of $20 million and $24 million at December 31, 2004 and 2003, 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 11.4743 shares of Sprint common stock. Liberty may, at its election, pay the exchange value in cash, Sprint common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash generally equal to the face amount of the debentures plus accrued interest.

In February and March 2000, Liberty issued an aggregate of $810 million of 3.75% Senior Exchangeable Debentures due 2030. Each $1,000 debenture is exchangeable at the holder's option for the value of 8.3882 shares of Sprint common stock. Liberty may, at its election, pay the exchange value in cash, Sprint common stock or a combination thereof. Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

In January 2001, Liberty issued $600 million of 3.5% 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 and 4.0654 shares of Freescale Semiconductor, Inc. ("Freescale"), which Motorola spun off to its shareholders in December 2004. Such exchange value is payable, at Liberty's option, in cash, Motorola and Freescale 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 generally equal to the face amount of the debentures plus accrued interest.

In March 2001, Liberty issued $817.7 million of 3.25% 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. Such exchange value is payable at Liberty's option in cash, Viacom stock or a combination thereof. On or after March 15, 2006, Liberty, at its option, may redeem the debentures, in whole or in part, for cash equal to the face amount of the debentures plus accrued interest.

In March and April 2003, Liberty issued an aggregate principal amount of $1,750 million 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. 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 equal to the face amount of the debentures plus accrued interest. 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 long-term debt is accreted to its face amount over the expected term of the debenture using the effective interest method. Accordingly, at December 31, 2004, the difference between the principal amount and the carrying value of the long-term debt portion is the unamortized fair value of the call option feature that was recorded at the date of issuance of the respective debentures. Accretion related to all of the Company's exchangeable debentures aggregated $83 million, $61 million and $7 million during the years ended December 31, 2004, 2003 and 2002, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

Subsidiary Debt

Subsidiary debt at December 31, 2004 is comprised of capitalized satellite transponder lease obligations.

In December 2004, Starz Entertainment cancelled its bank credit facility.

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):

2005	$ 10
2006	$2,988
2007	$ 12
2008	$1,762
2009	$ 962

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, 2004 is as follows (amounts in millions):

Fixed rate senior notes	$2,373
Floating rate senior notes	$2,492
Senior debentures	$1,628
Senior exchangeable debentures, including call option obligation	$4,376

Liberty believes that the carrying amount of its subsidiary debt approximated fair value at December 31, 2004.

(10) *Income Taxes*

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Current:			
Federal	$(175)	(4)	(4)
State and local	(62)	(30)	(1)
Foreign	(118)	(41)	(2)
	(355)	(75)	(7)
Deferred:			
Federal	137	(231)	1,288
State and local	51	(47)	231
Foreign	9	(1)	—
	197	(279)	1,519
Income tax benefit (expense)	$(158)	(354)	1,512

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,		
	2004	2003	2002
	amounts in millions		
Computed expected tax benefit	$(112)	305	1,617
Impairment charges and amortization of goodwill not deductible for income tax purposes	—	(477)	(62)
State and local income taxes, net of federal income taxes	(11)	(47)	153
Foreign taxes	(50)	(40)	(6)
Recognition of tax basis in equity of DMX	38	—	—
Change in valuation allowance affecting tax expense	(10)	(65)	(13)
Adjustments to dividend received deduction	—	(21)	16
Disposition of nondeductible goodwill in sales transactions	—	—	(185)
Other, net	(13)	(9)	(8)
Income tax benefit (expense)	$(158)	(354)	1,512

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

	December 31, 2004	December 31, 2003
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 1,169	803
Accrued stock compensation	127	95
Other future deductible amounts	198	135
Deferred tax assets	1,494	1,033
Valuation allowance	(407)	(386)
Net deferred tax assets	1,087	647
Deferred tax liabilities:		
Investments	8,384	7,735
Intangible assets	2,453	2,587
Discount on exchangeable debentures	863	849
Other	243	176
Deferred tax liabilities	11,943	11,347
Net deferred tax liabilities	$10,856	10,700

The Company's valuation allowance increased $21 million in 2004, including a $10 million charge to tax expense and an $11 million valuation allowance recorded in connection with acquisitions.

At December 31, 2004, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $3,162 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2006: $3 million; 2007: $87 million; 2008: $13 million; 2009: $1,011 million; and beyond 2009: $2,048 million. Of the foregoing net operating and capital loss carryforward amount, approximately $1,149 million is subject to certain limitations and may not be currently utilized. The remaining $2,013 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

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"). 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 fourth quarter of 2004, AT&T requested a refund from Liberty of $70 million, plus accrued interest, relating to losses that it generated in 2002 and 2003 and were able to carry back to offset taxable income previously offset by Liberty's losses. In the event AT&T generates capital losses in 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 an additional $229 million (excluding accrued interest) to AT&T. Liberty is currently unable to estimate how much, if any, it will ultimately refund to AT&T, but does not believe that any such refund, if made, would 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, optional or other 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, 2004, 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, 2004, 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 year ended December 31, 2004, the Company acquired approximately 96.0 million shares of its Series B common stock from the estate and family of the late founder of Liberty's former parent in exchange for approximately 105.4 million shares of Liberty Series A common stock. Ten million of the acquired Series B shares have been accounted for as treasury stock in the accompanying consolidated balance sheet, and the remaining Series B shares have been retired.

On July 28, 2004, Liberty completed a transaction with Comcast pursuant to which Liberty repurchased 120.3 million shares of its Series A common stock (valued at $1,017 million) held by Comcast in exchange for 100% of the stock of Encore ICCP, Inc. ("Encore ICCP"), a wholly owned subsidiary of Liberty. At the time of the exchange, Encore ICCP held Liberty's 10% ownership interest in E! Entertainment Television, Liberty's 100% ownership interest in International Channel Networks, all of Liberty's rights, benefits and obligations under a TCI Music contribution agreement, and $547 million in cash. The transaction also resolved all litigation pending between Comcast and Liberty regarding the TCI Music contribution agreement, to which Comcast succeeded as part of its acquisition of AT&T Broadband in November of 2002. In connection with this transaction, Liberty recognized a pre-tax gain on disposition of assets of $387 million.

During 2004, Liberty entered into zero-strike call spreads ("Z-Call") with respect to six million shares of its Series A common stock. The Z-Call is comprised of a call option purchased by Liberty from the counterparty with a zero strike price and a similar call option purchased by the counterparty from Liberty with a strike price equal to the market price of the Series A common stock on the date of execution. Upon expiration of the Z-Call, Liberty can purchase the subject shares of Series A common stock from the counterparty for no additional cost, and the counterparty can purchase the same shares from Liberty at the current market price, or the parties can net cash settle. Liberty accounts for the Z-Calls pursuant to Statement of Financial Accounting Standards No. 150, "*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*" ("Statement 150"). The total net payment by Liberty for the Z-Calls outstanding at December 31, 2004 was $63 million and is included in short term derivative assets in the accompanying consolidated balance sheet. Changes in the fair value of the Z-Calls are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations.

During 2004, Liberty also sold put options with respect to shares of its Series A common stock for cash proceeds of $3 million. All of these put options expired unexercised prior to December 31, 2004. Liberty accounted for these put options pursuant to Statement 150. Accordingly, the put options were recorded at fair value, and changes in the fair value of the put options are included in realized and unrealized gains (losses) on financial instruments in the accompanying consolidated statement of operations.

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, 2004 is $1.8 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 ($91,956 per month as of December 31, 2004). 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, 2004 is $22.1 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 $12.3 million at December 31, 2004 and is included in other liabilities in the accompanying consolidated balance sheets, 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 Corporation, 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 Liberty 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 Liberty Series B 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 Liberty Series A common stock, plus a 10% premium.

(13) ***Stock Options and Stock Appreciation Rights***

Liberty

Pursuant to the Liberty Media Corporation 2000 Incentive Plan (the "Liberty Incentive Plan"), the Company has granted to certain of its employees stock options, stock appreciation rights ("SARs") and stock options with tandem SARs (collectively, "Awards") to purchase shares of Liberty Series A and

Series B common stock. The Liberty Incentive Plan provides for awards to be made in respect of a maximum of 160 million shares of common stock of Liberty.

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 options granted prior to October 31, 2002 are accounted for as variable plan awards.

During the year ended December 31, 2003, Liberty awarded 4,601,000 free standing SARs to its officers and employees with an exercise price of $11.09 and 1,500,000 free standing SARs to its officers and employees with an exercise price of $14.33. Such SARs have a 10-year term, 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.

During the year ended December 31, 2004, Liberty awarded 4,011,450 free standing SARs to its officers and employees. Such SARs have a 10-year term, an exercise price of $8.45, 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 $4.36 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.

Effective June 1, 2004, the Liberty Board granted each nonemployee director of Liberty 11,000 free standing SARs at an exercise price of $11.00. The 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 $5.84 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.

In connection with the Spin Off and pursuant to the anti-dilution provisions of the Liberty Incentive Plan, the Liberty incentive plan committee determined to make adjustments to outstanding Liberty Awards. As of the Record Date, each outstanding Award held by (1) employees of LMI, (2) employees of Liberty in departments of Liberty that were expected to provide services to LMI pursuant to the Facilities and Services Agreement and (3) directors of Liberty were divided into (A) an option to purchase shares of LMI common stock equal to 0.05 times the number of LMC Awards held by the option holder on the Record Date and (B) an Award to purchase shares of Liberty common stock equal to the same number of shares of Liberty common stock for which the outstanding Award was exercisable. The aggregate exercise price of each pre-Spin Off Award was allocated between the new Liberty Award and the LMI Award. All other Awards were adjusted to increase the number of shares of Liberty common stock for which the Award was exercisable and to decrease the exercise price to reflect the dilutive effect of the distribution of LMI common stock in the Spin Off.

Pursuant to the Reorganization Agreement Liberty is responsible for settlement of all Liberty Awards whether held by Liberty employees or LMI employees, and LMI is responsible for settlement of all LMI Awards whether held by Liberty employees or LMI employees. Liberty will continue to record compensation for all Liberty and LMI Awards held by Liberty employees. The compensation for LMI Awards will be reflected as an adjustment to additional paid-in capital in Liberty's statement of stockholders' equity.

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, 2002	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
Granted	4,078	$ 8.54	—	
Exercised	(2,060)	$ 2.13	—	
Canceled	(5,457)	$13.32	—	
Adjustments related to Spin Off	4,321		—	
Outstanding at December 31, 2004	55,976	$ 9.15	28,165	$12.94
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
Exercisable at December 31, 2004	37,558	$ 8.18	18,307	$12.94
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, 2004.

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
18,927	$ 0.88-$ 3.39	$ 1.64	0.8 years	18,927	$ 1.64
6,433	$ 5.60-$ 9.19	$ 8.23	7.3 years	913	$ 6.32
29,158	$10.04-$ 14.14	$11.93	6.6 years	16,524	$12.26
1,458	$19.56-$251.69	$54.91	5.3 years	1,194	$57.04
55,976				37,558	

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 $2,491. 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, 2004, there were a total of 168,139 options outstanding, 44,627 of which were vested at a weighted average exercise price of $1,142 and 123,512 of which were unvested at a weighted average exercise price of $1,970. During the year ended December 31, 2004, QVC received cash proceeds from the exercise of options aggregating $39 million. In 2004, QVC also repurchased shares of common stock issued upon exercise of stock options in prior years. Cash payments aggregated $168 million for these repurchases.

As of December 31, 2004, Liberty had granted to certain officers and employees of QVC a total of 9,847,391 restricted shares of Liberty Series A common stock. Such shares generally vest as to 33% on each of January 1, 2005, 2006 and 2007.

Starz Entertainment

Starz Entertainment has outstanding Phantom Stock Appreciation Rights ("PSARS") held by certain of its officers and employees (including its former chief executive officer). PSARS granted under the plan generally vest over a five year period. Compensation under the PSARS is computed based upon the percentage of PSARS that are vested and a formula derived from the estimated fair value of the net assets of Starz Entertainment. All amounts earned under the plan are payable in cash, Liberty common stock or a combination thereof. At December 31, 2004 the amount accrued for Starz Entertainment PSARs was $122 million.

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

Other

Certain of the Company's other 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 similar employee benefit plans. Employer cash contributions to all plans aggregated $29 million, $18 million and $13 million for the years ended December 31, 2004, 2003 and 2002, 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, 2002	$(396)	1,370	974
Other comprehensive loss	77	(562)	(485)
Balance at December 31, 2002	(319)	808	489
Other comprehensive earnings	42	2,715	2,757
Balance at December 31, 2003	(277)	3,523	3,246
Other comprehensive earnings	30	1,001	1,031
Contribution to LMI	—	(51)	(51)
Other activity	9	(9)	—
Balance at December 31, 2004	$(238)	4,464	4,226

Included in Liberty's accumulated other comprehensive earnings (loss) at December 31, 2004 is $123 million, net of income taxes, of foreign currency translation losses related to Cablevisión, S.A. ("Cablevisión"), a former equity method investment of Liberty, and $186 million, net of income taxes, of foreign currency translation losses related to Telewest Communications plc ("Telewest"), another former equity method investment of Liberty. Subsequent to December 31, 2004, Liberty disposed of its interests in Cablevisión and Telewest. Accordingly, in the first quarter of 2005, Liberty will recognize in its statement of operations approximately $510 million of foreign currency translation losses (before income tax benefits) related to Cablevisión and Telewest that were previously included in accumulated other comprehensive earnings (loss).

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, 2004:			
Foreign currency translation adjustments	$ 49	(19)	30
Unrealized holding losses on securities arising during period	2,441	(952)	1,489
Reclassification adjustment for losses realized in net loss	(800)	312	(488)
Other comprehensive earnings	$ 1,690	(659)	1,031
Year ended December 31, 2003:			
Foreign currency translation adjustments	$ 69	(27)	42
Unrealized holding gains on securities arising during period	5,480	(2,137)	3,343
Reclassification adjustment for gains realized in net loss	(1,030)	402	(628)
Other comprehensive earnings	$ 4,519	(1,762)	2,757
Year ended December 31, 2002:			
Foreign currency translation adjustments	$ 126	(49)	77
Unrealized holding losses on securities arising during period	(6,820)	2,660	(4,160)
Reclassification adjustment for losses realized in net loss	5,898	(2,300)	3,598
Other comprehensive loss	$ (796)	311	(485)

(16) *Transactions with Related Parties*

Subsidiaries of Liberty provide services to various equity affiliates of Liberty, including Discovery. Total revenue recognized by Liberty subsidiaries for such services aggregated $41 million and $13 million for the years ended December 31, 2004 and 2003, respectively.

In addition, Starz Entertainment pays Revolution Studios ("Revolution"), an equity affiliate, fees for the rights to exhibit films produced by Revolution. Payments aggregated $99 million, $91 million and $49 million in 2004, 2003 and 2002, respectively.

(17) ***Commitments and Contingencies***

Film Rights

Starz Entertainment, 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 Entertainment has entered into agreements with a number of motion picture producers which obligate Starz Entertainment to pay fees ("Programming Fees") for the rights to exhibit certain films that are released by these producers. The unpaid balance of Programming Fees for films that were available for exhibition by Starz Entertainment at December 31, 2004 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2004 is payable as follows: $200 million in 2005 and $16 million in 2006.

Starz Entertainment has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by Starz Entertainment until some future date. These amounts have not been accrued at December 31, 2004. Starz Entertainment's estimate of amounts payable under these agreements is as follows: $538 million in 2005; $256 million in 2006; $125 million in 2007; $108 million in 2008; $98 million in 2009; and $134 million thereafter.

In addition, Starz Entertainment is also obligated to pay Programming Fees for all qualifying films that are released theatrically in the United States by studios owned by The Walt Disney Company ("Disney") through 2009, all qualifying films that are released theatrically in the United States by studios owned by Sony Pictures Entertainment ("Sony") from 2005 through 2010 and all qualifying films released theatrically in the United States by Revolution through 2006. Films are generally available to Starz Entertainment for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by Starz Entertainment are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, Starz Entertainment is unable to estimate the amounts to be paid under these output agreements. However, such amounts are expected to be significant.

In addition to the foregoing contractual film obligations, each of Disney and Sony has the right to extend its contract for an additional three years. If Sony elects to extend its contract, Starz Entertainment would be required to pay Sony a total of $190 million in four annual installments of $47.5 million. Sony is required to exercise this option by December 31, 2007. If made, Starz Entertainment's payments to Sony would be amortized ratably as programming expense over the extension period beginning in 2011. An extension of this agreement would also result in the payment by Starz Entertainment of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, Starz Entertainment is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period.

Guarantees

Liberty guarantees Starz Entertainment's obligations under the Disney and Sony output agreements. At December 31, 2004, Liberty's guarantees for obligations for films released by such date aggregated $763 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above Starz Entertainment has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of Starz Entertainment, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantees of these obligations.

At December 31, 2004, Liberty has guaranteed ¥4.7 billion ($46 million) of the bank debt of Jupiter Telecommunications Co., Ltd. ("J-COM"), a former 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 2005 to 2018. Liberty's investment in J-COM was attributed to LMI in the Spin Off. In connection with the Spin Off, LMI has agreed to indemnify Liberty for any amounts Liberty is required to fund under this guarantee.

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 satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $84 million, $58 million and $50 million for the years ended December 31, 2004, 2003 and 2002, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2004 follows (amounts in millions):

Years ending December 31:	
2005	$62
2006	$49
2007	$39
2008	$32
2009	$26
Thereafter	$69

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 lease commitments will not be less than the amount shown for 2004.

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 three Groups based upon each businesses' services or products: Interactive Group, Networks Group and Corporate and Other (which includes its Tech/Ventures assets). 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, average sales price per unit, number of units shipped 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 each business's 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, litigation settlements 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, 2004, 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 United States 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.

Networks Group

- Starz Entertainment—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 United States and over 160 other countries.
- 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.
- GSN—50% owned equity method affiliate that operates a basic cable network dedicated to game-related programming and interactive game playing.

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 in the table below represent 100% of each business' revenue and operating cash flow. 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, Liberty could not, among other things, cause any noncontrolled affiliate to distribute to Liberty its proportionate share of the revenue or operating cash flow of such affiliate.

Performance Measures

	Years ended December 31,					
	2004		2003		2002	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	amounts in millions					
Interactive Group						
QVC	$ 5,687	1,230	4,889	1,013	4,362	861
Ascent Media	631	98	508	75	538	87
Other consolidated subsidiaries	309	47	297	31	256	22
Combined Interactive Group	6,627	1,375	5,694	1,119	5,156	970
Eliminate equity method affiliates	—	—	(2,916)	(579)	(4,362)	(861)
Consolidated Interactive Group	6,627	1,375	2,778	540	794	109
Networks Group						
Starz Entertainment	963	239	906	368	945	371
Discovery	2,365	663	1,995	508	1,717	379
Court TV	227	52	186	43	148	(1)
GSN	88	(2)	76	1	53	(11)
Other consolidated subsidiaries	21	(3)	27	—	24	—
Combined Networks Group	3,664	949	3,190	920	2,887	738
Eliminate equity method affiliates	(2,680)	(713)	(2,257)	(552)	(1,918)	(367)
Consolidated Networks Group	984	236	933	368	969	371
Corporate and Other	71	(74)	27	(108)	41	(77)
Consolidated Liberty	$ 7,682	1,537	3,738	800	1,804	403

Balance Sheet Information

	December 31,			
	2004		2003	
	Total Assets	Investments in affiliates	Total Assets	Investments in affiliates
	amounts in millions			
Interactive Group				
QVC	$14,314	78	13,824	77
Ascent Media	946	4	853	4
Other consolidated subsidiaries	552	—	587	—
Consolidated Interactive Group	15,812	82	15,264	81
Networks Group				
Starz Entertainment	2,945	52	2,852	50
Discovery	3,236	74	3,194	61
Court TV	275	—	285	—
GSN	108	—	101	—
Other consolidated subsidiaries	9	—	21	—
Combined Networks Group	6,573	126	6,453	111
Eliminate equity method affiliates	(3,619)	(74)	(3,580)	(61)
Consolidated Networks Group	2,954	52	2,873	50
Corporate and Other	31,264	3,600	32,345	3,482
Discontinued operations	151	—	3,743	—
Consolidated Liberty	$50,181	3,734	54,225	3,613

The following table provides a reconciliation of segment operating cash flow to loss from continuing operations before income taxes and minority interest:

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
Consolidated segment operating cash flow	$ 1,537	800	403
Stock compensation	(101)	88	46
Litigation settlement	42	—	—
Depreciation and amortization	(736)	(465)	(342)
Impairment of long-lived assets	—	(1,362)	(187)
Interest expense	(615)	(529)	(410)
Share of earnings (losses) of affiliates	97	45	(89)
Realized and unrealized gains (losses) on derivative instruments, net	(1,284)	(662)	2,139
Gains (losses) on dispositions, net	1,406	1,125	(541)
Nontemporary declines in fair value of investments	(129)	(22)	(5,806)
Other, net	107	109	184
Earnings (loss) from continuing operations before income taxes and minority interest	$ 324	(873)	(4,603)

Revenue by Geographic Area

Revenue by geographic area based on the location of customers is as follows:

	Years ended December 31,		
	2004	2003	2002
	amounts in millions		
United States	$5,884	3,133	1,656
Foreign countries	1,798	605	148
Consolidated Liberty	$7,682	3,738	1,804

Long-lived Assets by Geographic Area

	December 31,	
	2004	2003
	amounts in millions	
United States	$ 933	979
Foreign countries	459	398
Consolidated Liberty	$1,392	1,377

(19) ***Quarterly Financial Information (Unaudited)***

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2004:				
Revenue	$1,752	1,801	1,784	2,345
Operating income (loss), as reported	$ 174			
Reclassification for litigation settlement	42			
Operating income (loss), as adjusted	$ 216	184	156	186
Earnings (loss) from continuing operations	$ 81	(311)	374	17
Net earnings (loss)	$ (10)	(314)	372	(2)
Basic and diluted earnings (loss) from continuing operations per common share	$ .03	(.11)	.13	.01
Basic and diluted net earnings (loss) per common share	$ —	(.11)	.13	—
2003:				
Revenue	$ 438	429	833	2,038
Operating income (loss)	$ 12	(42)	152	(1,061)
Earnings (loss) from continuing operations	$ 131	(472)	37	(921)
Net earnings (loss)	$ 132	(464)	41	(931)
Basic and diluted earnings (loss) from continuing operations per common shares	$ .05	(.17)	.01	(.32)
Basic and diluted net earnings (loss) per common share	$ .05	(.17)	.01	(.32)

(20) ***Subsequent Event***

Liberty's Board of Directors has approved a resolution authorizing the spin-off of a newly formed subsidiary ("Liberty Spinco"). Liberty Spinco's assets will be comprised of Liberty's 100% ownership interest in Ascent Media and Liberty's 50% ownership interest in Discovery. The spin off, which will be effected as a tax-free distribution of Liberty Spinco's shares to Liberty's shareholders, is expected to occur in the second or third quarter of 2005 subject to, among other things, the receipt of a favorable tax opinion and regulatory and other third party approvals. Upon completion of this transaction, Liberty Spinco 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
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
David E. Rapley
Larry E. Romrell

Audit Committee

Donne F. Fisher
Paul A. Gould
David E. Rapley

Nominating & Corporate Governance Committee:

Donne F. Fisher
Paul A. Gould
David E. Rapley
Larry E. Romrell

Officers

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Chairman of the Board

Robert R. Bennett
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Mark D. Carleton
Senior Vice President

William R. Fitzgerald
Senior Vice President

David J. A. Flowers
Senior Vice President
and Treasurer

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.

CUSIP Numbers

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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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