Liberty Media Corporation
Annual Report
April 2006

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

- *general economic and business conditions and industry trends;*
- *consumer spending levels, including the availability and amount of individual consumer debt;*
- *the regulatory and competitive environment of the industries in which we, and the entities in which we have interests, operate;*
- *continued consolidation of the broadband distribution and movie studio industries;*
- *uncertainties inherent in the development and integration of new business lines and business strategies;*
- *changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and IP television and their impact on home shopping networks;*
- *increased digital TV penetration and the impact on channel positioning of our networks;*
- *rapid technological changes;*
- *capital spending for the acquisition and/or development of telecommunications networks and services;*
- *uncertainties associated with product and service development and market acceptance, including the development and provision of programming for new television and telecommunications technologies;*
- *future financial performance, including availability, terms and deployment of capital;*
- *fluctuations in foreign currency exchange rates and political unrest in international markets;*
- *the ability of suppliers and vendors to deliver products, equipment, software and services;*
- *the outcome of any pending or threatened litigation;*
- *availability of qualified personnel;*
- *changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;*
- *changes in the nature of key strategic relationships with partners and joint venturers;*
- *competitor responses to our products and services, and the products and services of the entities in which we have interests; and*
- *threatened terrorists attacks and ongoing military action in the Middle East and other parts of the world.*

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based. When considering such forward-looking statements, you should keep in mind the factors described in ''Risk Factors'' and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement. This Annual Report includes information concerning OpenTV Corp. and other public companies that file reports and other information with the SEC in accordance with the Securities Exchange Act of 1934. Information contained in this Annual Report concerning those companies has been derived from the reports and other information filed by them with the SEC. If you would like further information about these companies, the reports and other information they file with the SEC can be accessed on the Internet website maintained by the SEC at www.sec.gov. Those reports and other information are not incorporated by reference in this Annual Report.

Dear Fellow Shareholders

Liberty Media has a history of working to maximize the value of our shares. We are pleased to report that 2005 was another active year during which we delivered numerous operational accomplishments and continued to drive shareholder value. Our large operating businesses turned in good performances, and we completed the distribution of Discovery Holding Company. In November, we also announced our plan to create tracking stocks for our interactive and capital assets.

In 2005, we continued to execute our strategies to maximize the long-term value of our shares. As we have outlined in the past, these strategies include:

- Owning businesses with strong organic growth potential;
- Making timely acquisitions that enable us to enhance our growth prospects and create new business lines;
- Actively managing our capital structure; and
- Disaggregating businesses.

Although we did not realize the share price growth we had hoped to during the year, our focus on these initiatives yielded important progress. As a result, we believe that Liberty is well positioned to unlock value and generate strong returns for our shareholders in 2006 and beyond.

Operating Performance

QVC, Inc. QVC is the global leader in televised home shopping, and 2005 was another record year. QVC produced 14% revenue growth and a 16% increase in operating cash flow (OCF[1]), reflecting strong performance in all of its markets and across all product categories. Consolidated revenue totaled $6.5 billion for the year, while operating cash flow exceeded $1.4 billion. Domestic revenue increased 12% for the year to $4.6 billion, and domestic operating cash flow grew 11% to $1.1 billion. The international businesses, which include operations in the United Kingdom, Germany and Japan, continued to produce excellent results. While currency movements negatively influenced 2005 results, the international business still delivered revenue of $1.9 billion, representing a 20% growth rate, and operating cash flow of $338 million, a 34% increase compared with 2004. QVC.com accounted for 18% of domestic revenue in 2005, and our websites generated approximately 16% of consolidated revenue, representing a continuing shift in consumer behavior and a powerful sales outlet for the company. We believe online revenue will continue to grow as a percent of total sales and will remain a key strategic focus going forward.

During 2005, QVC aired more than 31,000 unique products and shipped more than 115 million units to 7.4 million customers in the United States. This scale demonstrates the breadth of QVC's television presence and the depth of its customer relationships. For 20 years, the company has built its reputation as a retailer offering high-quality merchandise at reasonable prices, while providing excellent customer service. These efforts have created a loyal and growing customer base that values QVC's owned brands and the many leading third-party brands and designers the channel offers. The company has strong growth prospects, and we intend to pursue continued domestic growth, the expansion of QVC's online presence, vertical integration and international expansion. These growth prospects position QVC as the centerpiece of our new Liberty Interactive tracking stock, which we expect to begin trading this spring.

Another important development during 2005 was the announcement by Doug Briggs, one of QVC's original employees and Chief Executive Officer since 1992, of his plan to retire. Doug has had a highly successful tenure at QVC, and we are deeply indebted to him for his years of strong stewardship. In October, we appointed Doug's successor, Michael George, as QVC's new President and Chief Executive Officer. Michael shares QVC's philosophy of customer respect, and he brings many years of retail experience, including e-commerce expertise, from McKinsey and Dell. We are pleased to welcome Michael to the Liberty family and look forward to his leadership of QVC in the coming years.

Starz Entertainment Group LLC (SEG) SEG is a leading provider of premium movie networks and programming distributed primarily via cable systems and direct broadcast satellite systems in the United States. SEG has 14.1 million subscribers to its Starz service and 25.8 million subscribers to Encore. In 2005, SEG revenue grew 4 percent to $1 billion, due primarily to subscriber growth. Also during the year, SEG entered into a new affiliation agreement with Comcast, the largest cable affiliate for Starz and Encore movies. Under the new agreement, Comcast will carry Encore and the Thematic Multiplex channels through September 2009, and Starz through December 2012.

SEG remains focused on driving growth by capitalizing on the Internet distribution rights it has acquired on all of its first-run movie titles and on approximately 80% of its library titles. In 2004, SEG launched Starz Ticket, making it the first company to offer a subscription-based movie download service. In January 2006, at the Consumer Electronics Show in Las Vegas, Starz announced the relaunch of its IP content distribution business under the brand name Vongo. Subscribers to Vongo will have access to unlimited downloads of the more than 1,000 movies and other content that are available in the Starz distribution window at any given time. SEG believes that this new service will be popular among subscribers and will drive incremental revenue growth opportunities for the company. With this in mind, SEG plans to enhance Vongo through the addition of new content.

As expected, 2005 was another year of unusually high programming cost increases for SEG, with these costs rising 18 percent. We believe that in 2006 programming costs will rise by a substantially lower rate, perhaps in the mid-single digit range. However, this reduction in programming cost growth will be largely offset by fees associated with the launch and marketing of Vongo. We are optimistic about the prospects for Vongo and confident in the continued popularity of the SEG networks among consumers and believe that the company will grow revenue and OCF in 2007.

Other Liberty Businesses On August 9, 2005, InterActiveCorp (IAC) completed the spin-off of its subsidiary, Expedia, Inc. We received one share of Expedia for each share of IAC that we owned. We believe that both IAC and Expedia are taking necessary actions to manage their balance sheets in order to drive improved leveraged equity returns.

On Command, our wholly owned subsidiary, reported $52 million of OCF in a very competitive market. Our equity affiliate, CourtTV, continued its strong performance, delivering revenue growth of 15% to $255 million and posting OCF growth of 10% to $57 million. Our 89%-owned subsidiary, TruePosition, continued its rapid deployment of location networks for Cingular and T-Mobile USA, and began exploring opportunities to offer a series of customer-facing, location-based services. WildBlue, our provider of broadband Internet service, officially offered its service for consumer use in 2005. The company has had very positive initial response, and as of March 2006, it had 40,000 subscribers. WildBlue recently announced $218 million of additional financing commitments and developed plans to launch a second satellite later this year.

Our newest wholly owned subsidiary, Provide Commerce, which we acquired in early 2006, is delivering steady performance for its current fiscal year, which began in June 2005. Provide's business typically peaks in the second half of its fiscal year, when the two largest flower-buying holidays, Valentine's Day and Mother's Day, occur. For the first six months of fiscal year 2006, Provide reported 30% revenue growth. In addition, Provide's early reports indicate that orders during the crucial month of February 2006 increased by between 25% and 30%, signaling the potential for an excellent full fiscal year for this business.

Acquisitions and Investments

Liberty seeks to grow primarily through development of its existing businesses, supported by investments and acquisitions that complement and enhance those businesses. When reviewing acquisition candidates, we focus on identifying businesses with attractive characteristics, including strong management, high growth, predictable revenue and cash flow streams, and favorable tax attributes. In 2005, we had another active year of reviewing acquisition and investment opportunities. We believe we made some very attractive deals that meet our objectives and support our ongoing strategies for both the Liberty Capital Group and the Liberty Interactive Group.

In November, we announced an agreement to purchase 51% of FUN Technologies, Inc., an industry leader in casual, skill and fantasy sports games. FUN has a number of compelling attributes, including a proven management team and a well-established presence in the rapidly growing skill games arena. Moreover, FUN's business addresses a demographic we understand well through our QVC, Court TV and GSN affiliates. We believe that FUN and GSN, the network for games, are highly complementary, and we plan to work with the FUN management team to cross-promote them by leveraging the power of GSN's video presence to drive the growth of FUN. This transaction closed in March 2006, and our investment in FUN will be attributed to Liberty Capital.

In December, we signed an agreement to acquire 100% of Provide Commerce. Provide operates an e-commerce marketplace of websites for perishable goods and offers a unique value proposition by delivering flowers directly from the grower to the consumer. We acquired Provide at what we believe was a reasonable valuation, and we are pleased that Provide's seasoned and successful management team will continue to operate the business going forward. Our plan is to promote Provide's brands on QVC during the periods of highest demand for flowers. We believe that this strategy will provide an efficient and cost-effective way to enhance Provide's already impressive growth rate. The Provide Commerce acquisition closed in February 2006, and the company will be attributed to Liberty Interactive.

In January 2006, we announced our first foray into the rapidly growing mobile media market through our investment in Mobile Streams, a leading provider of music, comedy and entertainment to handsets and other wireless devices. Also in January, we announced an investment in Sling Media, the developer of the Slingbox™, a device that enables users to watch their living room TV programming on their laptop or wireless device from any location. These investments are examples of the many exciting new areas we are exploring within Liberty Capital. As we move ahead, we are continuing to review numerous potential acquisitions, and we are seeking to invest in additional businesses that meet our strategic objectives.

Capital Structure and Liquidity

Liberty's capital structure remains strong and will provide added flexibility to make such investments upon the issuance of Liberty Capital stock and Liberty Interactive stock. At December 31, 2005, we had $2.3 billion of cash and marketable securities and $7.5 billion of non-strategic cost investments, including related derivatives. Additionally, we hold $11.8 billion of News Corp, IAC and Expedia, Inc. common stock.

During 2005, we completed our debt reduction program, retiring slightly more than $1.7 billion of parent company debt. Since inception of this program in late 2003, we have retired $4.43 billion of parent and subsidiary debt, net of $800 million of borrowings under the QVC credit facility. In March 2006, we announced a refinancing

of the QVC credit facility to increase our borrowing capacity under that facility from $2 billion to $3.5 billion. The face value of our total debt at year end was slightly less than $10 billion. We are confident in our ability to meet our interest and principal obligations under the terms of our debt, and believe we have significant financial flexibility to pursue our strategic objectives.

Disaggregation

Disaggregation was introduced as a Liberty strategy in 2004, and it has served the company and its shareholders well since that time. Our first major disaggregation initiative was the spin-off of Liberty Media International (LMI) to our shareholders. LMI subsequently merged with UnitedGlobalCom to form what is today Liberty Global.

In July 2005, we completed the spin-off of Discovery Holding Company (DHC) which included Liberty's 50% interest in Discovery Communications, as well as that of our wholly owned subsidiary, Ascent Media Group, to our shareholders. Our objective in this transaction was to create a separate public company that would be primarily focused on providing non-fiction television around the world. We remain confident that this new structure will enable the equity markets to value this business properly, a factor that will in turn give DHC greater flexibility to grow.

We believe that the LMI and DHC transactions generated benefits for Liberty shareholders, both by further simplifying Liberty and by setting the stage for the spun-off assets to develop and grow. It is in recognition of these advantages that we have decided to create the Liberty Capital and Liberty Interactive tracking stocks.

The Case for Creating Liberty Capital and Liberty Interactive

The assets that comprise Liberty today are the successor assets of investments made or enabled by being associated with Tele-Communications, Inc. (TCI), once the nation's largest cable television company. TCI's scale, market power and steady investment in synergistic assets—including Discovery, Starz, Turner, BET, Teleport, @Home, Sprint PCS, General Instrument, international cable television, QVC, IAC and numerous others—together evolved into the current mix of Liberty assets. When TCI was merged into AT&T, it was believed that this synergistic, market power focus would be intensified, as Liberty became a tracking stock of AT&T, with inter-company agreements established to pursue mutual opportunities. We did not anticipate that AT&T would encounter the difficulties it did so soon after the merger. Thus, Liberty lost its best ally in developing existing or new businesses. In 2001, approximately two and a half years after AT&T and TCI merged, Liberty was spun off as a separate public company.

In March 2000, we correctly realized that the stock market bubble was nearing its bursting point, and we set out to hedge our investment positions that were most at risk. While contractual and regulatory restrictions limited what we could accomplish, we

were successful in protecting the value of many of our positions. Nonetheless, the businesses that comprised Liberty in 2000—namely, Liberty Media Corporation, Discovery Holding Company and Liberty Global—today have a combined market capitalization of $37 billion, well below their peak of approximately $80 billion in 2000. While we think that the peak market capitalization we attained in 2000 was unrealistic for that time, we also believe the combined value of $37 billion today is too low.

Without the TCI distribution market power to drive some businesses, we responded by merging some of our businesses into other entities, taking equity to defer taxes and maximize price. We then hedged the equity, thereby providing downside protection, but also limiting the upside on many of our investment positions. The weak performance of ‘‘old media’’ exacerbated this muted value, and Liberty's stock price performance has suffered.

As we discussed earlier in this letter, in 2004 we employed a disaggregation strategy to focus and consolidate. After completing the spin-offs of Liberty Media International and Discovery Holding Company, we are left to focus on the remaining Liberty assets. On a ‘‘static’’ basis, we regard ourselves as undervalued, trading somewhere around 70% of the value of our combined parts. There are many theories to explain this discount, including complexity, diversity, holding company concerns, the absence of tax basis in a number of our assets, and our holding of several large public equity positions. All of these possibilities underscore the same point we have emphasized in the past—that we need to help the investment and analyst communities to focus their attention on the underlying value of our assets. We believe that the most effective way to do this is to create a tracking stock structure that attributes our assets to two groups, Liberty Capital and Liberty Interactive.

In defining the tracking stock groups, we decided to focus on our largest operating business and highest performer, QVC. With dominant share in video commerce, exceptional free cash flow, and substantial international and e-commerce growth potential, we believe a well-positioned ‘‘interactive’’ vehicle can achieve a high multiple that fully reflects its intrinsic value. This currency can then be used opportunistically to consolidate in the interactive space. IAC and Expedia seem to fit within the interactive group, sharing potentially similar strategies and leveraged earnings growth potential. We believe this group, leveraged at three to four times net debt, presents an attractive investment vehicle.

Conventional wisdom is that the current Liberty discount will be largely transferred to Liberty Capital due to its complexity, passive equity positions, lack of tax basis and holding company discount. If this proves true, we may shrink the equity of Liberty Capital. Nonetheless, Liberty Capital will need to trade out of many of its passive equity positions and acquire new businesses or expand its existing businesses. The redeployment of this large equity base represents the greatest opportunity to re-direct the Liberty Capital Group.

We believe this strategy gives us significant flexibility in capital structure and investment opportunities. We believe that it puts us in a good position to simplify Liberty Capital and create new avenues for growth, while expanding Liberty Interactive through organic growth, strategic acquisitions and business development. While we are focusing on this growth, we believe we will be in a much stronger position to actively manage the balance sheets of both groups. This should enable us to fund their growth initiatives while repurchasing equity at prices and under circumstances we deem appropriate.

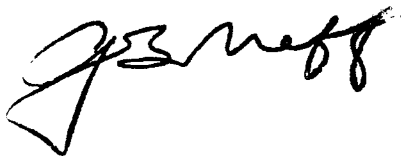
2006 and Beyond

In August 2005, Dob Bennett, one of Liberty's original employees, announced his plan to step down from his longtime role of President and Chief Executive Officer. We are pleased that Dob will continue on the Liberty team in a strategic capacity and as a member of our board. Greg Maffei joined us in November 2005 and became Chief Executive Officer on March 1st. Greg previously served as Chief Financial Officer of Microsoft, Chief Executive Officer of 360networks, and Co-President of Oracle.

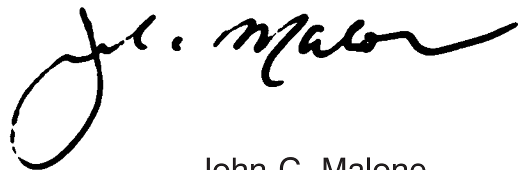
We both feel confident that the steps we are taking today to create financial flexibility and simplify Liberty Media will drive enhanced shareholder value in the future. We are committed as your fellow shareholders to ensuring continued strong operating performance while making the structural changes necessary to unlock shareholder value and drive increasingly strong financial performance.

We trust that you have—as we do—a broad sense of the scale of the opportunity today at Liberty. As we move ahead to leverage that opportunity, we thank you for your continued support of Liberty Media Corporation.

Very truly yours,



Gregory B. Maffei
President and Chief Executive Officer

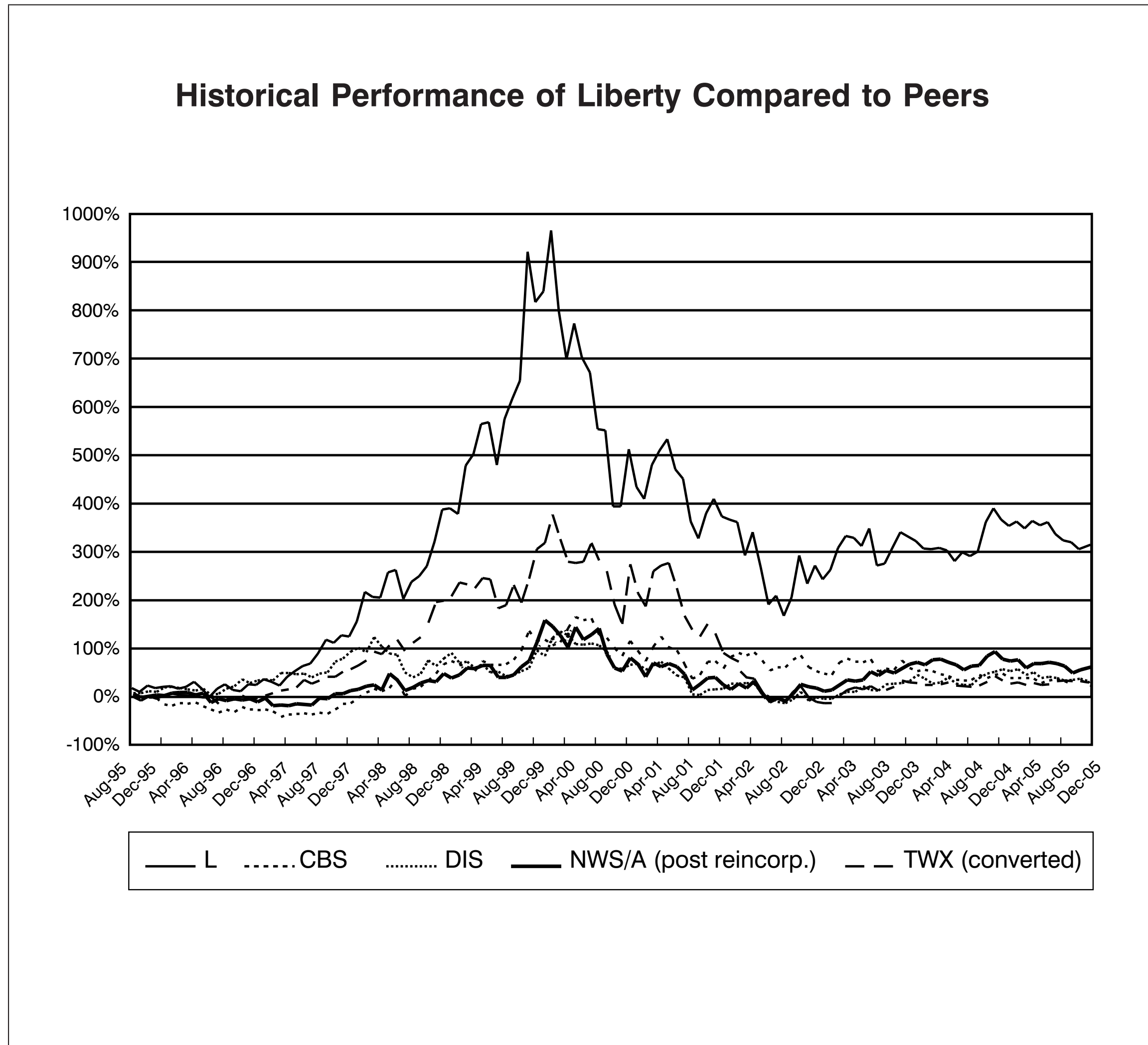


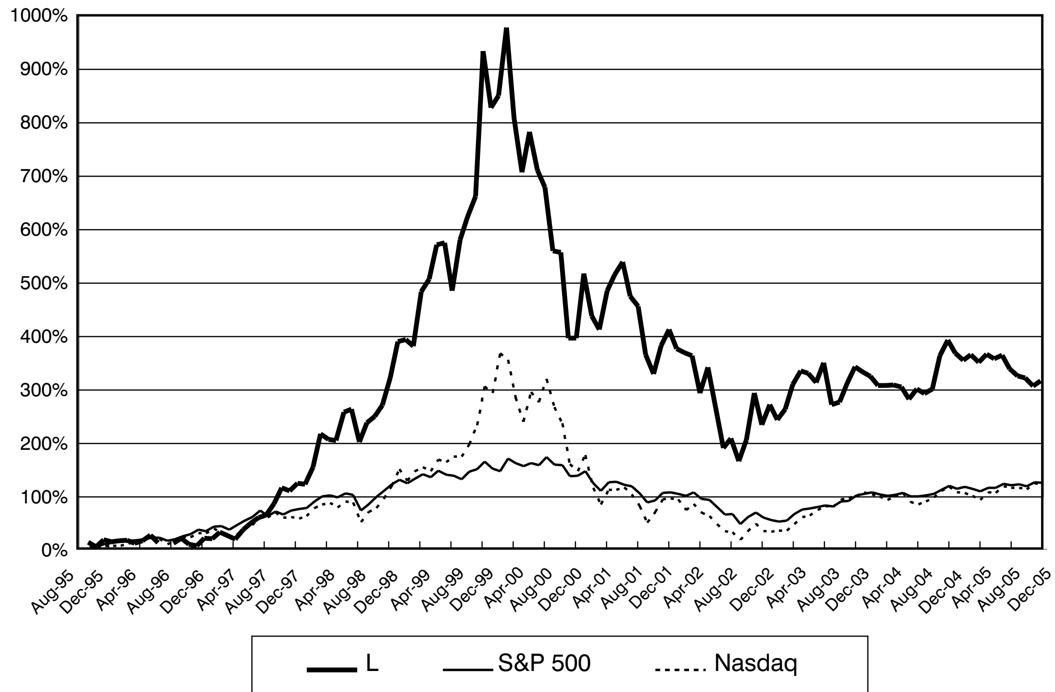
John C. Malone
Chairman of the Board

[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 U.S. generally accepted accounting principles (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 our accompanying consolidated financial statements for a reconciliation of OCF to earnings (loss) before income taxes and minority interest.

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
1000%
900%
800%
700%
600%
500%
400%
300%
200%
100%
0%
Aug-95
Dec-95
Apr-96
Aug-96
Dec-96
Apr-97
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Nasdaq

COMPANY PROFILE

Liberty Media is a holding company owning interests in a broad range of electronic retailing, media, communications and entertainment businesses. Liberty Media's businesses include some of the world's most recognized and respected brands, including QVC, Encore, Starz, IAC/InterActiveCorp, Expedia, Inc. and News Corporation.

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 12/31/05 (000's)	SUBSCRIBERS AT 12/31/04 (000's)	SUBSCRIBERS AT 12/31/03 (000's)	YEAR LAUNCHED	ATRRIBUTED OWNERSHIP AT 12/31/05
OPERATING BUSINESSES					
Court TV	84,500	82,500	79,000	1991	50%
GSN	57,805	56,411	53,615	1994	50%
Hallmark Entertainment Investments Co.					11%[(1)]
MacNeil/Lehrer Productions	N/A	N/A	N/A	N/A	67%
News Corporation (NYSE: NWS, NWS.A)					16%[(2)]
Starz Entertainment Group LLC					100%
Encore	25,784	24,457	21,925	1991	
MOVIEplex	11,892	3,925	5,362	1995	
Thematic Multiplex (aggregate units)[(3)]	140,459	130,349	111,358		
Love Stories				1994	
Westerns				1994	
Mystery				1994	
Action				1994	
True Stories				1994	
WAM				1994	
Starz	14,082	14,108	12,324	1994	
Starz Edge[(3)]				1996	
Starz InBlack[(3)]				1997	
Starz Kids & Family[(3)]				1999	
Starz Cinema[(3)]				1999	
Starz Comedy[(3)]				1999	

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/05
	OPERATING BUSINESSES	
Current Communications Group	Developing Broadband over Power Line (BPL) technology and solutions through its two subsidiaries, Current Communications and Current Technologies.	16%
On Command Corporation	Provider of in-room interactive entertainment, Internet access, business information and guest services for the lodging industry.	100%
Provide Commerce	E-commerce market place providing a collection of branded websites each offering high quality, perishable products shipped directly from the supplier to the consumer and designed specifically around the way consumers shop.	100%
QVC, Inc.	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%
TruePosition, Inc.	Provider of wireless location technology and services.	89%
Wildblue Communications, Inc.	A ka-band satellite network focusing on providing broadband services to homes and small offices in North and South America.	32%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/05
PUBLICLY TRADED INVESTMENTS—STRATEGIC		
Expedia, Inc. (Nasdaq: EXPE)	Empowers business and leisure travelers with the tools and information they need to easily research, plan, book and experience travel. They also provide wholesale travel to offline retail travel agents. Expedia's main companies include: Expedia.com, Hotels.com, Hotwire, Expedia Corporate Travel, TripAdvisor and Classic Vacations. Expedia's companies operate internationally in Canada, the UK, Germany, France, Italy, the Netherlands and China.	20%
IAC/InteractiveCorp (Nasdaq:IACI)	Operates businesses in sectors being transformed by the internet, online and offline. IAC is comprised of HSN; Cornerstone Brands, Inc.; HSE24; Shop Channel: TVSN; Ticketmaster; ReserveAmerica; TicketWeb; Lending Tree; GetSmart; RealEstate.com; Domania; PRC; ServiceMagic; Match.com; Entertainment Publications; Interval International; Ask Jeeves; Citysearch; Evite; Gifts.com; QuizTV and iBuy.	22%(4)
IDT Corporation (Nasdaq:IDT)	Provider of wholesale and retail telecommunications services, using their own network infrastructure to route calls worldwide. IDT developed Net2Phone, a provider of Internet telephony, along with other innovative telecom and Internet-related businesses.	18%
OpenTV Corp. (Nasdaq: OPTV)	OpenTV provides a comprehensive suite of iTV solutions including operating middleware, web browser software, interactive applications, content creation tools, professional support services and strategic consulting.	31%(5)
Sling Media	Providers of set top device that allows laptop users to watch and control their TV from anywhere.	6%

ENTITY	BUSINESS DESCRIPTION	ATTRIBUTED OWNERSHIP AT 12/31/05
	PUBLICLY TRADED INVESTMENTS—FINANCIAL	
Motorola, Inc. (NYSE: MOT)	Provider on integrated communications solutions and embedded electronic solutions.	3%
priceline.com, Incorporated (Nasdaq: PCLN)	E-commerce service allowing consumers to make offers on products and services.	1%
Sprint Corporation (NYSE: S)	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.	4%(6)
Time Warner Inc. (NYSE: TWX)	Time Warner Inc. is one of the world's leading media and entertainment companies, whose businesses include filmed entertainment, interactive services, television networks, cable systems, music and publishing.	4%
Viacom Inc. (NYSE: VIA)	A leading global media company, with preeminent positions in broadcast and cable television, radio, outdoor advertising, and online. Well-known brands include CBS, MTV, Nickelodeon, Nick at Nite, VH1, BET, Paramount Pictures, Infinity Broadcasting, Viacom Outdoor, UPN, TV Land, Comedy Central, CMT: Country Music Television, Spike TV, Showtime, Blockbuster, and Simon & Schuster.	<1%

(1) Liberty Media Corporation indirectly owns an approximate 9% economic ownership in Crown Media Holdings, Inc. (NASDAQ: CRWN).

(2) 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 19%.

(3) Digital services.

(4) Liberty owns approximately 22% of IAC common stock representing approximately 47% voting interest, however, the Chairman and CEO of IAC currently has the authority to vote these shares.

(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.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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, 2005 and 2004.

	Series A		Series B	
	High	Low	High	Low
2005				
First quarter	$10.93	9.97	11.60	10.30
Second quarter	$10.64	10.01	11.06	10.20
Third quarter through July 20, 2005	$10.28	9.89	10.75	10.00
July 21 through September 30, 2005*	$ 8.90	7.98	10.15	8.12
Fourth quarter	$ 8.18	7.59	8.56	7.55
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

* Our spin off of DHC was completed on July 21, 2005.

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

Holders

As of January 31, 2006, there were approximately 166,000 and 1,000 record and beneficial holders of our Series A common stock and Series B common stock, respectively.

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 2006 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,				
	2005	2004	2003(2)	2002	2001
	amounts in millions				
Summary Balance Sheet Data(1):					
Investments in available-for-sale securities and other cost investments	$18,497	21,847	19,566	14,181	20,265
Investment in affiliates	$ 1,908	784	745	3,420	6,749
Assets of discontinued operations	$ —	5,716	9,141	8,374	7,848
Total assets	$41,952	50,209	54,225	40,324	48,539
Long-term debt(3)	$ 6,371	8,566	9,417	3,908	4,167
Stockholders' equity	$19,120	24,586	28,842	24,682	30,123

	Years ended December 31,				
	2005	2004	2003(2)	2002	2001
	amounts in millions, except per share amounts				
Summary Statement of Operations Data(1):					
Revenue	$7,960	7,051	3,230	1,266	1,181
Operating income (loss)(4)	$ 897	725	(940)	(14)	(570)
Share of earnings (losses) of affiliates, net(5)	$ 13	15	7	(57)	(4,067)
Realized and unrealized gains (losses) on financial instruments, net	$ 257	(1,284)	(661)	2,127	361
Gains (losses) on dispositions, net	$ (365)	1,406	1,126	(538)	(273)
Nontemporary declines in fair value of investments	$ (449)	(129)	(22)	(5,806)	(4,099)
Earnings (loss) from continuing operations(4)(5)	$ (64)	100	(1,229)	(2,973)	(5,335)
Basic and diluted earnings (loss) from continuing operations per common share(6)	$ (.02)	.04	(.44)	(1.15)	(2.06)

(1) On July 21, 2005, we completed the spin off of our wholly-owned subsidiary, Discovery Holding Company, or DHC, to our shareholders. Our consolidated financial statements and selected financial information have been prepared to reflect DHC as discontinued operations. Accordingly, the assets and liabilities, and revenue, costs and expenses of DHC 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 DHC.

(2) On September 17, 2003, we completed our acquisition of Comcast Corporation's approximate 56% 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 42% of QVC, we owned 98% 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 our wholly-owned subsidiary, Starz Entertainment Group LLC. See note 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 $434 million for the year ended December 31, 2001.

(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 $516 million for the year ended December 31, 2001. 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. Our more significant operating subsidiaries, which are also our reportable segments, are QVC, Inc. and Starz Entertainment Group LLC, which we refer to as SEG. QVC 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. SEG provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States.

Our corporate and other segment includes our other consolidated subsidiaries and corporate expenses. Our other consolidated subsidiaries include On Command Corporation ("On Command"), OpenTV Corp. ("OpenTV") and TruePosition, Inc. ("TruePosition"). On Command provides in-room, on-demand video entertainment and information services to hotels, motels and resorts primarily in the United States. OpenTV provides interactive television solutions, including operating middleware, web browser software, interactive applications and consulting and support services. TruePosition provides equipment and technology that provide location-based services to wireless users.

In addition to the foregoing businesses, we hold an approximate 20% interest in Expedia, Inc., which we account for as an equity method investment, and we continue to maintain significant investments and related derivative positions in public companies such as News Corporation, IAC/InterActiveCorp, Time Warner Inc. and Sprint Nextel Corporation, which are accounted for at their respective fair market value and are included in corporate and other.

Discontinued Operations

On July 21, 2005, we completed the spin off of our wholly-owned subsidiary, Discovery Holding Company ("DHC"), to our shareholders. At the time of the spin off, DHC's assets were comprised of

our 100% ownership interest in Ascent Media Group, our 50% ownership interest in Discovery Communications, Inc. and $200 million in cash. In connection with the spin off, holders of our common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned at 5:00 p.m. New York City time on July 15, 2005 and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned at 5:00 p.m. New York City time on July 15, 2005. The spin off is intended to qualify as a tax-free spin off. We recognized no gain or loss in connection with the spin off due to the pro rata nature of the distribution.

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 due to the pro rata nature of the distribution.

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. On May 16, 2005, The Bankruptcy Court approved the sale of substantially all of the operating assets of DMX to an independent third party. As a result of the DMX bankruptcy filing, we deconsolidated DMX effective January 1, 2005.

Our consolidated financial statements and accompanying notes have been prepared to reflect DHC, LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of DHC, 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.

Strategies and Challenges of Business Units

QVC has identified improved domestic growth and continued international growth as key areas of focus in 2006. 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, (2) continued expansion of brand selection and available domestic products and (3) continued development and enhancement of the QVC websites to drive Internet commerce. 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, (3) maintaining favorable channel positioning as digital TV penetration increases and (4) successful management transition.

SEG views (1) negotiating new affiliation agreements with key distributors, (2) introducing new pay-per-view and subscription services for Internet delivery and (3) increasing subscribers as key initiatives in 2006. SEG faces several key obstacles in its attempt to meet these goals, including: (1) continued consolidation in the broadband and satellite distribution industries; (2) the impact on viewer habits of new technologies such as video on demand and personal video recorders; (3) cable operators' promotion of bundled service offerings rather than premium video services; and (4) an increasing number of alternative movie and programming sources.

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.

Consolidated Operating Results

	Years ended December 31,		
	2005	**2004**	**2003**
	amounts in millions		
Revenue			
QVC	$6,501	5,687	1,973
SEG	1,004	963	906
Corporate and Other	455	401	351
Consolidated revenue	$7,960	7,051	3,230
Operating Cash Flow (Deficit)			
QVC	$1,422	1,230	434
SEG	171	239	368
Corporate and Other	(5)	(30)	(77)
Consolidated operating cash flow	$1,588	1,439	725
Operating Income (Loss)			
QVC	$ 921	760	292
SEG	105	148	266
Corporate and Other	(129)	(183)	(1,498)
Consolidated operating income (loss)	$ 897	725	(940)

Revenue. Our consolidated revenue increased 12.9% in 2005 and over 100% in 2004, as compared to the corresponding prior year. The 2005 increase was driven primarily by growth of 14.3% at QVC and growth of 4.3% at SEG. In addition, TruePosition's revenue increased $77 million as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets. The 2004 increase is due primarily to our September 2003 acquisition of a controlling interest in QVC. Our 2004 revenue was also positively impacted by an increase at SEG of $57 million, a $21 million increase for TruePosition and a $14 million increase for OpenTV. See *"Operating Results by Business"* below for a more complete discussion of QVC and SEG.

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 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 $149 million or 10.4% and $714 million or 98.5% in 2005 and 2004, respectively, as compared to the corresponding prior year. The 2005 increase is due to a $192 million increase for QVC and a $30 million improvement for TruePosition, partially offset by a $68 million decrease for SEG. The 2004 increase is 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. This increase was partially offset by a decrease in SEG's operating cash flow ($129 million) primarily due to higher programming costs. In addition, OpenTV's Operating Cash Flow improved $19 million and our corporate general and administrative expenses decreased $11 million in 2004.

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 expense reflected in our consolidated statement of operations 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. Depreciation and amortization decreased slightly in 2005 due to certain assets becoming fully amortized, partially offset by an increase in depreciable assets due to capital expenditures. The increase in amortization in 2004 is due primarily to the acquisition of QVC and amortization of the related intangible assets.

Impairment of long-lived assets. SEG 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 SEG, 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 SEG. 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. SEG'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 SEG 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 SEG's services and (2) lower per subscriber rates under a new affiliation agreement with Comcast.

Operating income (loss). We generated consolidated operating income of $897 million and $725 million in 2005 and 2004, respectively, compared to an operating loss of $940 million in 2003. The higher operating loss in 2003 is due primarily to the goodwill impairment charge recorded by SEG

noted above. Our operating income in 2005 is attributable to QVC ($921 million) and SEG ($105 million) partially offset by operating losses of our other consolidated subsidiaries and corporate expenses.

Other Income and Expense

Interest expense. Interest expense was $623 million, $615 million and $508 million, for the years ended December 31, 2005, 2004 and 2003, respectively, including $89 million, $83 million and $61 million, respectively, of accretion of our exchangeable debentures. The increase in 2005 is due to lower outstanding debt balances, more than offset by higher interest rates on our variable rate debt. 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.

Dividend and interest income. Dividend and interest income was $144 million, $131 million and $164 million for the years ended December 31, 2005, 2004 and 2003, respectively. The 2004 decrease is due primarily to a decrease in the interest we earned on invested cash balances. Interest and dividend income for the year ended December 31, 2005 was comprised of interest income earned on invested cash ($59 million), dividends on News Corp. common stock ($58 million), dividends on other available-for-sale ("AFS") securities ($21 million) and other ($6 million).

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,		
	2005	2004	2003
	amounts in millions		
Change in fair value of exchangeable debenture call option features	$ 172	(129)	(158)
Change in fair value of equity collars	311	(941)	(483)
Change in fair value of borrowed shares	(205)	(227)	(121)
Change in fair value of put options	(66)	2	108
Change in fair value of put spread collars	9	8	21
Change in fair value of other derivatives(1)	36	3	(28)
	$ 257	(1,284)	(661)

(1) Comprised primarily of interest rate swap agreements.

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

	Years ended December 31,		
Transaction	2005	2004	2003
	amounts in millions		
Sale of investment in Telewest Global, Inc.	$(266)	—	—
Sale of investment in Cablevisión S.A.	(188)	—	—
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 Universal	—	—	262
Other, net	89	175	118
	$(365)	1,406	1,126

In the above 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, 11 and 15 to the accompanying consolidated financial statements for a discussion of the foregoing transactions.

Nontemporary declines in fair value of investments. During 2005, 2004 and 2003, 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 and aggregated $449 million, $129 million and $22 million for the years ended December 31, 2005, 2004 and 2003, respectively. The impairment recorded in 2005 includes $352 million related to our investment in News Corp. voting shares.

Income taxes. Our effective tax rate was 68.8% in 2005, 54.3% in 2004 and was not meaningful in 2003. Our effective tax rate in 2005 was greater than the U.S. federal income tax rate of 35% due to a tax benefit of $147 million that we recorded as a result of a change in our estimated effective state and foreign tax rates. In the third quarter of 2005, we assessed our weighted average state tax rate in connection with our spin off of Discovery Holding Company. As a result of this assessment, we decreased our state tax rate used in calculating the amount of our deferred tax liabilities and recognized a deferred income tax benefit of $131 million. Also in 2005, we reduced our estimated foreign tax rate related to QVC and recognized a tax benefit of $16 million. These tax benefits were partially offset by our foreign tax expense and an increase in our valuation allowance for deferred tax assets of subsidiaries that we do not consolidate for tax purposes. 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 $342 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 deferred tax assets of subsidiaries that we do not consolidate for tax purposes.

Net earnings (loss). Our net earnings (loss) was ($33) million, $46 million and ($1,222) million for the years ended December 31, 2005, 2004 and 2003, respectively, and was the result of the above-described fluctuations in our revenue and expenses. In addition, we recognized earnings (loss) from discontinued operations of $31 million, ($54) million and $7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Operating Results by Business

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 17 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 our revenue and expenses for the year ended December 31, 2004 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, 2005, 2004 and 2003. 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 2005, 2004 and 2003 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,		
	2005	**2004**	**2003**
	amounts in millions		
Net revenue	$ 6,501	5,687	4,889
Cost of sales	(4,112)	(3,594)	(3,107)
Gross profit	2,389	2,093	1,782
Operating expenses	(570)	(497)	(447)
SG&A expenses	(397)	(366)	(322)
Operating cash flow	1,422	1,230	1,013
Stock compensation	(52)	(33)	(6)
Depreciation and amortization	(449)	(437)	(222)
Operating income	$ 921	760	785

Net revenue for the years ended December 31, 2005, 2004 and 2003 includes the following revenue by geographical area:

	Years ended December 31,		
	2005	**2004**	**2003**
	amounts in millions		
QVC-US	$4,640	4,141	3,845
QVC-UK	554	487	370
QVC-Germany	781	643	429
QVC-Japan	526	416	245
Consolidated	$6,501	5,687	4,889

QVC's net revenue increased 14.3% and 16.3% for the years ended December 31, 2005 and 2004, respectively, as compared to the corresponding prior year, as average sales per customer increased in both years. The 2005 increase in revenue is comprised of a $779 million increase due to an increase in the number of units shipped from 138.0 million to 154.4 million and a $204 million increase due to a 3.3% increase in the average sales price per unit ("ASP"). The revenue increases were partially offset by a $198 million decrease due to an increase in product returns and a $24 million decrease due to unfavorable foreign currency exchange rates. Returns as a percent of gross product revenue increased from 17.6% in 2004 to 18.0% in 2005 due to a shift in the sales mix from home products to jewelry, apparel and accessories products, which typically have higher return rates.

The 2004 increase is comprised of an $804 million increase due to an increase in the number of units shipped and a $140 million increase due to 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 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. Decreases in consolidated revenue due to lower ASP aggregated $97 million. 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. Returns as a percent of gross product revenue decreased from 17.8% in 2003 to 17.6% in 2004. Each of QVC's markets added subscribers in 2005 and 2004. The number of homes receiving QVC's services are as follows:

	Homes (in millions)		
	December 31,		
	2005	2004	2003
QVC-US	90.8	88.4	85.9
QVC-UK	17.8	15.6	13.1
QVC-Germany	37.4	35.7	34.6
QVC-Japan	16.7	14.7	11.8

The QVC service is already received by substantially all of the cable television and direct broadcast satellite homes in the U.S. and Germany. In addition, the rate of growth in households is expected to diminish in the UK and Japan. As these markets continue to mature, QVC also expects its consolidated rate of growth in revenue to diminish. Future sales growth will primarily depend on continued additions of new customers from homes already receiving the QVC service, continued growth in sales to existing customers and growth in the number of cable and direct broadcast satellite homes. 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 habits because of personal video recorders, video-on-demand and IP television and (iv) general economic conditions.

As noted above, during the years ended December 31, 2005 and 2004, the changes in revenue and expenses were also impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. While the U.S. dollar weakened against these currencies in 2004, it began to strengthen in 2005. In the event the U.S. dollar continues to strengthen 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, 2005		Year ended December 31, 2004	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	12.1%	12.1%	7.7%	7.7%
QVC-UK	13.8%	15.1%	31.6%	17.5%
QVC-Germany	21.5%	21.9%	49.9%	36.3%
QVC-Japan	26.4%	29.4%	69.8%	58.3%

QVC's gross profit percentage was 36.7%, 36.8% and 36.4% for the years ended December 31, 2005, 2004 and 2003, respectively. These slight fluctuations are due primarily to variances in the inventory obsolescence provision for the respective year, as well as changes in product margins due to shifts in product mix.

QVC's operating expenses are comprised of commissions and license fees, order processing and customer service expense, telecommunications expense, provision for doubtful accounts, and credit card processing fees. Operating expenses increased 14.7% and 11.2% for the years ended December 31, 2005 and 2004, 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

8.8%, 8.7% and 9.1% for 2005, 2004 and 2003, respectively. Commissions and license fees, as a percent of net revenue, were fairly consistent between 2005 and 2004 and decreased in 2004, as compared to 2003. 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 addition, there has been an increase in 2005 and 2004 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 2005 and 2004 compared to the corresponding prior year as a result of reduced personnel expense due to increased Internet sales, and operator efficiencies in call handling and staffing. QVC's telecommunications expenses decreased in 2005 due to new contracts with certain of its service providers. Credit card processing fees and the bad debt provision remained consistent as a percent of net revenue for each of the years ended December 31, 2005, 2004 and 2003.

QVC's SG&A expenses increased 8.5% and 13.7% during the years ended December 31, 2005 and 2004, respectively, as compared to the corresponding prior year. The majority of the 2005 increase reflects a $23 million increase in personnel costs due to the addition of employees to support the increased sales of QVC's foreign operations. In addition, statutory sales and use tax increased $6 million in 2005. The majority of the increase in SG&A expenses in 2004 resulted from a $28 million increase 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 expenditures increased $8 million due to higher third-party service costs related to various software projects as well as higher software maintenance fees. The $6 million increase in advertising and marketing expenditures can largely be attributed to QVC-Japan and QVC-Germany. These increases were partially offset by decreases in transponder fees ($12 million) and a lower provision for statutory local sales and use tax ($7 million). 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 decreased while depreciation and interest expense increased in 2004.

QVC's depreciation and amortization expense increased for the years ended December 31, 2005 and 2004. The 2005 increase is due to fixed asset and software additions, and the 2004 increase is due primarily to the amortization of intangible assets recorded in connection with our purchase of QVC.

SEG. Historically, SEG has provided premium programming distributed by cable operators, direct-to-home ("DTH") satellite providers and other distributors throughout the United States. In addition, in 2004 and 2005, SEG launched via the Internet Starz Ticket and Vongo which are comprised of Starz and Starz on Demand and other movie and entertainment content. Starz Ticket and Vongo are offered on a subscription basis, and in addition, Vongo offers content on a pay-per-view basis. Virtually all of SEG's revenue continues to be derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of SEG's affiliation agreements provide for payments to SEG based on the number of subscribers that receive SEG's services. SEG also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be, and these agreements, other than the Comcast agreement described below, expire in 2006 through 2008. During the year ended December 31, 2005, 58.3% of SEG's revenue was generated by its three largest customers, Comcast, Echostar Communications and DirecTV. SEG's affiliation agreement with Echostar has been extended until March 8, 2006, and SEG is currently in negotiations with Echostar regarding a new agreement. SEG's affiliation agreement with DirecTV expires on March 31, 2006.

SEG'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, did include a short-term packaging commitment to carry the Encore and Thematic Multiplex channels

(EMP) in specified digital tiers on Comcast's cable systems. The affiliation agreement originally expired at the end of 2010, and Comcast's packaging commitment expired at the end of 2005. In the second quarter of 2005, SEG and Comcast renegotiated their affiliation agreement. The new agreement eliminates Comcast's packaging commitment for EMP and provides for a fixed fee payment structure, with certain Consumer Price Index ("CPI") adjustments, for EMP through September 2009. The agreement also provides for a guaranteed payment structure for Comcast's carriage of Starz through December 2012 with contractual increases for 2006 and 2007 and annual CPI adjustments for the remainder of the term. The foregoing payment structure for EMP and Starz may be adjusted in the event Comcast acquires or disposes of cable systems. Finally, Comcast has agreed to the elimination of certain future marketing support commitments from SEG. As a result of this new agreement, SEG's future revenue from Comcast for its EMP and Starz products will not be impacted by any increases or decreases in actual subscribers, except in the case of acquisitions or dispositions noted above. The terms of the EMP and Starz payment structures can be extended by Comcast, at its option, for a total of six years and five years, respectively.

SEG's operating results are as follows:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Revenue	$1,004	963	906
Operating expenses	(706)	(603)	(430)
SG&A expenses	(127)	(121)	(108)
Operating cash flow	171	239	368
Stock-based compensation	(17)	(28)	130
Depreciation and amortization	(49)	(63)	(75)
Impairment of long-lived assets	—	—	(157)
Operating income	$ 105	148	266

SEG's revenue increased 4.3% and 6.3% for the years ended December 31, 2005 and 2004, respectively, as compared to the corresponding prior year. The 2005 increase in revenue is due to an $85 million increase resulting from an increase in the average number of subscription units for SEG's services partially offset by a $52 million decrease due to a decrease in the effective rate for SEG's services. The increase in 2004 is due primarily to an increase in the average number of subscription units for SEG's Thematic Multiplex and Encore services ($39 million) and an increase in rates charged to affiliates ($17 million).

SEG's Starz movie service and its EMP movie service are the primary drivers of SEG's revenue. Starz average subscriptions increased 6.7% and 4.2% in 2005 and 2004, respectively; and EMP average subscriptions increased 8.0% and 8.9% in 2005 and 2004, respectively. While the average subscription units have increased in 2005, as compared to 2004, most of this growth occurred in late 2004, and SEG's Starz and EMP units have remained relatively flat for most of 2005. SEG believes that this trend is due to a number of factors including (1) certain cable operators shifting their marketing efforts away from the addition of premium video subscribers to promotion of other services; (2) a reduction in the rate of growth of digital subscribers; and (3) a loss of subscribers due to the hurricane damage in the Gulf Coast region in the third quarter of 2005.

At December 31, 2005, cable, direct broadcast satellite, and other distribution represented 67.2%, 31.7% and 1.1%, respectively, of SEG's total subscription units.

SEG's operating expenses increased $103 million or 17.1% and $173 million or 40.2% for the years ended December 31, 2005 and 2004, respectively, as compared to the corresponding prior year. Such

increases are due primarily to increases in programming costs, which increased from $398 million in 2003 to $564 million in 2004 and to $668 million in 2005. The 2005 increase in programming costs is due to (1) a $55 million increase resulting from a higher percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product exhibitions in 2005 and (2) a $49 million increase due to a higher cost per title for movie titles under certain of SEG's license agreements. The 2004 increase in programming costs is due to (1) a $96 million increase resulting from a higher percentage of first-run movie exhibitions as compared to the number of library product exhibitions, (2) a $28 million increase due to a higher cost per title due to new rate cards for movie titles under certain of its license agreements, and (3) amortization of deposits previously made under the output arrangements ($42 million). In addition, in the first quarter of 2003, SEG 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.

SEG expects that its programming costs in 2006 will be 5%-7% higher than the 2005 costs due to the factors described above. This estimate is subject to a number of assumptions that could change depending on the number and timing of movie titles actually becoming available to SEG and their ultimate box office performance. Accordingly, the actual amount of cost increases experienced by SEG may differ from the amounts noted above.

SEG's SG&A expenses increased $6 million or 5.0% and $13 million or 12.0% during 2005 and 2004, respectively, as compared to the corresponding prior year. The 2005 increase in SG&A expenses is due to (1) $11 million of consulting and marketing expenses incurred in connection with SEG's 2005 development and 2006 launch of Vongo, and (2) a $12 million credit recorded by SEG in 2004 related to the recovery of certain accounts receivable from Adelphia Communications and other customers. These increases were offset by a $16 million decrease in sales and marketing as SEG participated in fewer national marketing campaigns and obtained reduced marketing commitments under the new affiliation agreement with Comcast in 2005.

The 2004 increase in SG&A expenses is due primarily to increases in sales and marketing expenses partially offset by decreases in bad debt and payroll tax expense. As noted above, SEG has entered into new affiliation agreements with certain multichannel television distributors, which, in some cases, has resulted in new packaging of SEG'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. During the year ended December 31, 2004, SEG sold a portion of its pre-petition accounts receivable from Adelphia Communications to an independent third party. SEG had previously provided an allowance against the Adelphia accounts receivable based on SEG'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, SEG recovered approximately $4 million of additional accounts receivable from various customers for which a reserve had previously been provided.

SEG has outstanding phantom stock appreciation rights held by its former chief executive officer. Compensation relating to the phantom stock appreciation rights has been recorded based upon the estimated fair value of SEG. 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 SEG. SEG recorded a $130 million credit to stock compensation in 2003 as a result of a decrease in the estimated equity value of SEG.

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

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, 2005, our primary corporate use of cash was the retirement of $1,719 million principal amount of parent company debt for aggregate cash payments of $1,731 million, plus accrued interest. We made a portion of these debt retirements pursuant to tender offers that we completed in the second quarter of 2005 whereby we purchased $200 million principal amount of our 3.50% Senior Notes due 2006 and $800 million principal amount of our Floating Rate Senior Notes due 2006 for aggregate cash payments of $1,010 million plus accrued interest. We funded the debt repurchases under our tender offer with cash on hand and proceeds from a short-term credit facility collateralized by certain of our derivative instruments. This short-term credit facility was subsequently repaid with proceeds from the QVC credit facility described below.

Our projected uses of cash in 2006 include approximately $1,400 million to retire our senior notes that mature in September 2006, $481 million to fund our acquisition of Provide Commerce, Inc. (which was consummated on February 9, 2006), approximately $465 million for interest payments, approximately $200 million to fund our acquisition of FUN Technologies plc and approximately $200 million to fund a secured loan to WildBlue Communications. 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 will be funded with a combination of borrowings under the QVC bank credit facility, cash on hand, cash provided by operating activities, proceeds from equity collar expirations and dispositions of non-strategic assets. At December 31, 2005, our sources of liquidity include $2,335 million in cash and marketable debt securities and $7,583 million of non-strategic AFS securities, including related derivatives. In addition, we own $8,171 million of News Corp. common stock and $1,960 million of IAC/InterActiveCorp common stock, which we consider to be strategic assets. To the extent we recognize any taxable gains from the sale of assets or expiration of derivative instruments, we may incur current tax expense and be required to make tax payments.

Our derivatives (“AFS Derivatives”) related to certain of our AFS investments provide us with an additional source of liquidity. Based on the put price and assuming we deliver owned or borrowed shares to settle each of our AFS Derivatives and excluding any provision for income taxes, we would be entitled to cash proceeds of approximately $395 million in 2006, $385 million in 2007, zero in 2008, $1,180 million in 2009, $1,683 in 2010, and $1,312 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, 2005, we had not made any borrowings under these arrangements and the borrowing capacity aggregated approximately $4,853 million. Such borrowings would reduce the cash proceeds upon settlement noted in the preceding paragraph.

During 2005, each of Standard and Poor’s Rating Service, Moody’s Investors Service and Fitch Ratings lowered its rating of our senior debt to one level below investment grade. 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, such downgrades 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 our downgrades have adversely impacted the ability of our subsidiaries to arrange bank financing or our ability to borrow against the value of our equity collars.

Subsidiaries

Effective May 20, 2005, QVC entered into a $2 billion bank credit facility. The QVC Credit Facility is comprised of an $800 million term loan that was drawn at closing, a $400 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a $400 million multi-currency term loan that can be drawn at any time before September 30, 2006, a $200 million U.S. dollar revolving loan and a $200 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on May 20, 2010, and accrue interest, at the option of QVC, at LIBOR plus an applicable margin or the Alternative Base Rate, as defined in the QVC Credit Facility, plus an applicable margin. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

Subsequent to December 31, 2005, the QVC bank facility was refinanced with a new $3.5 billion bank facility. The new bank facility is comprised of an $800 million term loan drawn at closing, an $800 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a $600 million multi-currency term loan that can be drawn at any time before September 30, 2006, a $650 million U.S. dollar revolving loan and a $650 million multi-currency revolving loan. All loans are due and payable on March 3, 2011.

In 2005, our subsidiaries funded capital expenditures ($233 million), and the repurchase of certain subsidiary common stock ($85 million) with cash on hand and cash generated by their operating activities.

Our subsidiaries currently expect to spend approximately $430 million for capital expenditures in 2006, including $355 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

SEG has entered into agreements with a number of motion picture producers which obligate SEG 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 SEG at December 31, 2005 is reflected as a liability in the accompanying consolidated

balance sheet. The balance due as of December 31, 2005 is payable as follows: $191 million in 2006; $11 million in 2007; and $13 million thereafter.

SEG 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 SEG until some future date. These amounts have not been accrued at December 31, 2005. SEG's estimate of amounts payable under these agreements is as follows: $539 million in 2006; $178 million in 2007; $103 million in 2008; $95 million in 2009; $75 million in 2010 and $52 million thereafter.

In addition, SEG is 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 through 2010 and all qualifying films produced for theatrical release in the United States by Revolution Studios through 2006. Films are generally available to SEG for exhibition 10 - 12 months after their theatrical release. The Programming Fees to be paid by SEG are based on the quantity and domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, SEG 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, SEG has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. This option expires December 31, 2007. If made, SEG'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 SEG of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, SEG 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 SEG's film licensing obligations under certain of its studio output agreements. At December 31, 2005, Liberty's guarantees for studio output obligations for films released by such date aggregated $779 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, SEG has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of SEG, a consolidated subsidiary of ours, we have not recorded a separate liability for our guarantees of these obligations.

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

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	amounts in millions				
Long-term debt (1)	$ 9,961	1,379	1,773	928	5,881
Long-term derivative instruments	2,099	1,939	—	—	160
Interest payments (2)	6,256	463	782	641	4,370
Operating lease obligations	106	27	41	25	13
Programming Fees (3)	1,257	730	305	170	52
Purchase orders and other obligations	1,042	1,029	13	—	—
Total contractual payments	$20,721	5,567	2,914	1,764	10,476

(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) have elements which are reported at fair value in our consolidated balance sheet. Also includes capital lease obligations. Amounts do not assume additional borrowings or refinancings of existing debt.

(2) Amounts (1) are based on our outstanding debt at December 31, 2005, (2) assume the interest rates on our floating rate debt remain constant at the December 31, 2005 rates and (3) assume that our existing debt is repaid at maturity.

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

Since the date we issued our exchangeable debentures, we have claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which we could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in us claiming interest deductions significantly in excess of the cash interest currently paid on our exchangeable debentures. Interest deducted in prior years on our exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2005 and later years. These NOLs and current interest deductions on our exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge our tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to our reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in our deferred tax expense. However, the NOLs we have recorded would not be available to offset our current taxable income, and we would be required to make current federal income tax payments. These federal income tax payments could prove to be significant.

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 its 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. While we were a subsidiary of AT&T, we recorded our stand-alone tax provision on a separate return basis. Subsequent to our spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, we received cash payments from AT&T aggregating $670 million as payment for our taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the tax sharing agreement and in connection with the split off from AT&T, AT&T was required to pay us an amount equal to 35% of the amount of the net operating loss carryforward ("TCI NOLs") reflected in TCI's final federal income tax return that had not been used as an offset to our obligations under the tax sharing agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with the split off, we received an $803 million payment for the TCI NOLs and recorded such payment as an increase to additional paid-in capital. We were not paid for certain of the TCI NOLs ("SRLY NOLs") due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay us 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that we were required to recognize additional taxable income related to the recapitalization of one of our investments resulting in a tax liability of

approximately $30 million. As a result of the tax assessment, we also received a corresponding amount of additional tax basis in the investment. However, we were able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the $30 million tax liability and an increase to additional paid-in capital.

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 was able to carry back to offset taxable income previously offset by our losses. AT&T has asserted that our losses caused AT&T to pay $70 million in alternative minimum tax ("AMT") that it would not have been otherwise required to pay had our losses not been included in its return. In 2004, we estimated that we may ultimately pay AT&T up to $30 million of the requested $70 million because we believed AT&T received an AMT credit of $40 million against income taxes resulting from the AMT previously paid. Accordingly, we accrued a $30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and our accrual of amounts due to AT&T was an increase to our deferred tax assets and an increase to our other liabilities.

In the fourth quarter of 2005, AT&T requested an additional $21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by our losses. In addition, the information provided to us in connection with AT&T's request shows that AT&T has not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, we increased our accrual by approximately $40 million (with a corresponding decrease to additional paid-in capital) representing our estimate of the amount we may ultimately pay to AT&T as a result of this request. Although we have not reduced our accrual for any future refunds, we believe we are entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional $21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by our losses. We are currently reviewing this claim and have not recorded an accrual for this request in our consolidated financial statements for the year ended December 31, 2005.

Although for accounting purposes we have accrued a portion of the amounts claimed by AT&T to be owed by us under the tax sharing agreement, we believe there are valid defenses or set-off or similar rights in our favor that may cause the total amount that we owe AT&T to be less than the amounts accrued.

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.

During the third quarter of 2005, a subsidiary of Liberty, TruePosition, Inc. ("TruePosition"), entered into an agreement with one of its major customers whereby TruePosition will remove and replace certain location-based equipment supplied by another vendor and currently installed in the customer's network. TruePosition currently estimates that the costs to provide this equipment and service will exceed the revenue earned and that it will incur a loss of approximately $18 million on the contract. Since this agreement is an executory contract, TruePosition will recognize this loss during the term of the contract as material elements of the contract are delivered. TruePosition entered into this agreement because it believes its appointment as the customer's exclusive provider of these services and the resulting future potential revenue earned from the customer's continuing network build-out and expansion will exceed the loss computed on the contractual arrangement. However, no assurance can be given that future business from this customer will be sufficient to offset the loss incurred on this portion of the contract.

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 that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies are required to adopt Statement 123R as of the beginning of the first fiscal year that begins after June 15, 2005, or January 1, 2006 for calendar-year companies such as Liberty. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after December 31, 2005. The accounting for awards granted, but not vested, prior to January 1, 2006 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 December 31, 2005 will include pro forma information as though the standard had been adopted for all periods presented.

We currently estimate that upon adoption of Statement 123R, we will be required to record a $125 million charge to earnings (before related income taxes) as the cumulative effect of a change in accounting. Such transition adjustment primarily represents the aggregate differences between the fair value and intrinsic value of our liability awards. In addition, at December 31, 2005, we have approximately $65 million of unamortized stock based compensation related to equity awards granted prior to January 1, 2006 that will be amortized into our statement of operations over approximately 4 years.

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 49% and 45% of our total assets at December 31, 2005 and 2004, respectively. 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 and the timing of when to recognize such charges 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, 2005, we had unrealized holding losses of $27 million related to certain of our AFS equity securities.

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 the fair value of our derivatives 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, 2005, the expected volatilities used to value our AFS Derivatives generally ranged from 21% to 27% and the discount rates ranged from 4.8% to 5.0%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ 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, 2005	$1,199	
25% increase in discount rate	$1,027	(172)
25% decrease in discount rate	$1,380	181
25% increase in expected volatilities	$1,186	(13)
25% decrease in expected volatilities	$1,212	13

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, 2005 and 2004. 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.

Electronic Retailing Reserves. QVC records reserves for sales returns, inventory obsolescence and allowance for uncollectible receivables. Each of these reserves is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our statement of operations. For the years ended December 31, 2005 and 2004, sales returns represented 16.5% and 16.1% of QVC's gross revenue, respectively. The inventory obsolescence reserve is calculated as a percent of QVC's inventory at the end of a reporting period, and the change in such reserve is included in cost of goods sold in our statement of operations. At December 31, 2005, QVC's inventory is $809 million and the obsolescence reserve is $90 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our statement of operations. At

December 31, 2005, QVC's trade accounts receivable are $837 million, net of the allowance for doubtful accounts of $65 million. Each of these reserves requires management judgment and may not reflect actual results.

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, 2005, the face amount of our fixed rate debt (considering the effects of interest rate swap agreements) was $8,203 million, which had a weighted average interest rate of 4.6%. Our variable rate debt of $1,758 million had a weighted average interest rate of 6.0% at December 31, 2005. Had market interest rates been 100 basis points higher (representing an approximate 16.6% increase over our variable rate debt effective cost of borrowing) throughout the year ended December 31, 2005, we would have recognized approximately $21 million of additional interest expense.

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.

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	Total
	amounts in millions			
Fair value at December 31, 2005	$1,408	133	(342)	1,199
5% increase in market prices	$1,270	133	(329)	1,074
10% increase in market prices	$1,133	133	(316)	950
5% decrease in market prices	$1,545	133	(355)	1,323
10% decrease in market prices	$1,683	133	(368)	1,448

(1) Includes narrow-band collars.

At December 31, 2005, the fair value of our AFS securities was $18,427 million. Had the market price of such securities been 10% lower at December 31, 2005, the aggregate value of such securities would have been $1,843 million lower resulting in a decrease to unrealized holding 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 holding gains or losses in other comprehensive earnings. We have recorded a $1,581 million liability for shares borrowed under these arrangements at December 31, 2005.

We are exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. We typically do not hedge our investment in foreign subsidiaries due to the long-term nature of our investment. 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 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 earnings (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 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 purchase of our own or third-party public and private indebtedness. Under these arrangements, we direct a counterparty to purchase a specified amount of the underlying debt security for our benefit. We initially post collateral with the counterparty equal to 10% to 15% of the value of the purchased securities. We earn interest income based upon the face amount and stated interest rate of the purchased 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 more than a specified percentage, 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, 2005, the aggregate purchase price of debt securities underlying total return debt swap arrangements was $222 million ($129 million of which related to our senior notes and debentures). As of such date, we had posted cash collateral equal to $27 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 $195 million. The posting of such collateral and the related settlement of the agreements with respect to our senior notes and debentures 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, 2005
	amounts in millions
Counterparty A	$ 437
Counterparty B	428
Counterparty C	409
Other	510
	$1,784

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page II-28. The financial statement schedules required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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, 2005 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-26 for *Management's Report on Internal Control Over Financial Reporting.*

See page F-27 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, 2005 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

Other Information.

None.

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, 2005. 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, 2005, 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-27 of this Annual Report.

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-26, that Liberty Media Corporation maintained effective internal control over financial reporting as of December 31, 2005, 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, 2005, 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, 2005, 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, 2005 and December 31, 2004, 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, 2005, and our report dated March 7, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
March 7, 2006

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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, 2005, 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 7, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
March 7, 2006

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
	amounts in millions	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,946	1,387
Trade and other receivables, net	1,106	1,035
Inventory, net	719	712
Program rights	599	520
Derivative instruments (note 7)	661	827
Other current assets	129	123
Total current assets	5,160	4,604
Investments in available-for-sale securities and other cost investments, including $1,581 million and $907 million pledged as collateral for share borrowing arrangements (note 6)	18,497	21,847
Long-term derivative instruments (note 7)	1,123	1,601
Investments in affiliates, accounted for using the equity method (note 8)	1,908	784
Property and equipment, at cost	1,726	1,637
Accumulated depreciation	(595)	(504)
	1,131	1,133
Intangible assets not subject to amortization (note 2):		
Goodwill	6,953	6,938
Trademarks	2,385	2,385
	9,338	9,323
Intangible assets subject to amortization, net (note 2)	4,028	4,436
Other assets, at cost, net of accumulated amortization	767	765
Assets of discontinued operations (note 5)	—	5,716
Total assets	$41,952	50,209

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004

	2005	2004
	amounts in millions	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 516	424
Accrued liabilities	826	788
Accrued stock compensation	133	235
Program rights payable	191	200
Derivative instruments (note 7)	1,939	1,179
Current portion of debt (note 9)	1,379	10
Other current liabilities	302	303
Total current liabilities	5,286	3,139
Long-term debt (note 9)	6,371	8,566
Long-term derivative instruments (note 7)	1,087	1,812
Deferred income tax liabilities (note 10)	8,728	9,701
Other liabilities	1,070	801
Liabilities of discontinued operations (note 5)	—	1,305
Total liabilities	22,542	25,324
Minority interests in equity of subsidiaries	290	299
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 2,681,745,985 shares at December 31, 2005 and 2,678,895,158 shares at December 31, 2004	27	27
Series B common stock $.01 par value. Authorized 400,000,000 shares; issued 131,062,825 shares at December 31, 2005 and 2004	1	1
Additional paid-in capital	29,098	33,765
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	3,421	4,215
AOCE of discontinued operations	—	12
Unearned compensation	(24)	(64)
Accumulated deficit	(13,278)	(13,245)
	19,245	24,711
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2005 and 2004)	(125)	(125)
Total stockholders' equity	19,120	24,586
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$ 41,952	50,209

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	amounts in millions, except per share amounts		
Revenue:			
Net sales from electronic retailing	$ 6,501	5,687	1,973
Communications and programming services	1,459	1,364	1,257
	7,960	7,051	3,230
Operating costs and expenses:			
Cost of sales—electronic retailing services	4,112	3,594	1,258
Operating	1,608	1,356	860
Selling, general and administrative (“SG&A”)	652	662	387
Stock compensation—SG&A (note 2)	52	98	(91)
Litigation settlement	—	(42)	—
Depreciation	162	172	127
Amortization	477	486	267
Impairment of long-lived assets (note 2)	—	—	1,362
	7,063	6,326	4,170
Operating income (loss)	897	725	(940)
Other income (expense):			
Interest expense	(623)	(615)	(508)
Dividend and interest income	144	131	164
Share of earnings of affiliates, net (note 8)	13	15	7
Realized and unrealized gains (losses) on derivative instruments, net (note 7)	257	(1,284)	(661)
Gains (losses) on dispositions, net (notes 6, 11 and 15)	(365)	1,406	1,126
Nontemporary declines in fair value of investments (note 6)	(449)	(129)	(22)
Other, net	(38)	(25)	(53)
	(1,061)	(501)	53
Earnings (loss) from continuing operations before income taxes and minority interest	(164)	224	(887)
Income tax benefit (expense) (note 10)	141	(119)	(342)
Minority interests in earnings of subsidiaries	(41)	(5)	—
Earnings (loss) from continuing operations	(64)	100	(1,229)
Earnings (loss) from discontinued operations, net of taxes (note 5)	31	(54)	7
Net earnings (loss)	$ (33)	46	(1,222)
Earnings (loss) per common share (note 2):			
Basic and diluted earnings (loss) from continuing operations	$ (.02)	.04	(.44)
Discontinued operations	.01	(.02)	—
Basic and diluted net earnings (loss)	$ (.01)	.02	(.44)
Weighted average number of common shares outstanding	2,795	2,856	2,748

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	amounts in millions		
Net earnings (loss)	$ (33)	46	(1,222)
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	(5)	23	35
Recognition of previously unrealized foreign currency translation losses	312	—	—
Unrealized holding gains (losses) arising during the period	(1,121)	1,490	3,341
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	217	(488)	(628)
Reclass unrealized gain on available-for-sale security to equity method investment	(197)	—	—
Other comprehensive earnings (loss) from discontinued operations (note 5)	(7)	(55)	227
Other comprehensive earnings (loss)	(801)	970	2,975
Comprehensive earnings (loss)	$ (834)	1,016	1,753

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2005, 2004 and 2003

	2005	2004	2003
	amounts in millions (see note 3)		
Cash flows from operating activities:			
Net earnings (loss)	$ (33)	46	(1,222)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:			
Loss (earnings) from discontinued operations	(31)	54	(7)
Depreciation and amortization	639	658	394
Impairment of long-lived assets	—	—	1,362
Stock compensation	52	98	(91)
Payments of stock compensation	(103)	(10)	(360)
Noncash interest expense	101	96	75
Share of earnings of affiliates, net	(13)	(15)	(7)
Realized and unrealized losses (gains) on derivative instruments, net	(257)	1,284	661
Losses (gains) on disposition of assets, net	365	(1,406)	(1,126)
Nontemporary decline in fair value of investments	449	129	22
Minority interests in earnings of subsidiaries	41	5	—
Deferred income tax expense (benefit)	(405)	(233)	269
Other noncash charges	42	21	70
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(184)	(520)	(347)
Payables and other current liabilities	447	623	176
Net cash provided (used) by operating activities	1,110	830	(131)
Cash flows from investing activities:			
Cash proceeds from dispositions	63	479	2,443
Premium proceeds from origination of derivatives	473	193	763
Net proceeds from settlement of derivatives	461	322	1,172
Investments in and loans to cost and equity investees	(24)	(960)	(2,557)
Cash paid for acquisitions, net of cash acquired	(5)	(93)	(711)
Capital expended for property and equipment	(233)	(177)	(151)
Net sales (purchases) of short term investments	(85)	272	95
Repayments of notes receivable from LMI	—	117	—
Other investing activities, net	(15)	(14)	9
Net cash provided by investing activities	635	139	1,063
Cash flows from financing activities:			
Borrowings of debt	861	—	4,152
Repayments of debt	(1,801)	(1,006)	(3,073)
Purchases of Liberty Series A common stock	—	(547)	(437)
Repurchases of subsidiary common stock	(95)	(171)	—
Proceeds from issuance of common stock	—	—	141
Other financing activities, net	100	37	(42)
Net cash provided (used) by financing activities	(935)	(1,687)	741
Effect of foreign currency exchange rates on cash	(45)	3	18
Net cash provided to discontinued operations (revised, see note 3):			
Cash provided by operating activities	31	216	101
Cash used by investing activities	(47)	(247)	(536)
Cash provided (used) by financing activities	—	996	(430)
Change in available cash held by discontinued operations	(190)	(1,829)	(10)
Net cash provided to discontinued operations	(206)	(864)	(875)
Net increase (decrease) in cash and cash equivalents	559	(1,579)	816
Cash and cash equivalents at beginning of year	1,387	2,966	2,150
Cash and cash equivalents at end of year	$ 1,946	1,387	2,966

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2005, 2004 and 2003

	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, 2003	$ —	25	2	36,498	493	(267)	—	(12,069)	—	24,682
Net loss	—	—	—	—	—	—	—	(1,222)	—	(1,222)
Other comprehensive earnings	—	—	—	—	2,748	227	—	—	—	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	—	—	—	37	—	—	—	—	—	37
Gain in connection with the issuance of stock of a subsidiary, net of taxes	—	—	—	6	—	—	—	—	—	6
Balance at December 31, 2003	—	27	2	39,001	3,241	(40)	(98)	(13,291)	—	28,842
Net earnings	—	—	—	—	—	—	—	46	—	46
Other comprehensive earnings (loss)	—	—	—	—	1,025	(55)	—	—	—	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
Other	—	—	—	2	—	—	3	—	—	5
Balance at December 31, 2004	—	27	1	33,765	4,215	12	(64)	(13,245)	(125)	24,586
Net loss	—	—	—	—	—	—	—	(33)	—	(33)
Other comprehensive loss	—	—	—	—	(794)	(7)	—	—	—	(801)
Issuance of Series A common stock for investment in available-for-sale security	—	—	—	14	—	—	—	—	—	14
Amortization of deferred compensation	—	—	—	—	—	—	38	—	—	38
Distribution to stockholders for spin off of Discovery Holding Company ("DHC") (note 5)	—	—	—	(4,609)	—	(5)	—	—	—	(4,614)
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes	—	—	—	(22)	—	—	—	—	—	(22)
Issuance of common stock upon exercise of stock options	—	—	—	10	—	—	—	—	—	10
Stock compensation for Liberty options held by LMI employees (note 13)	—	—	—	4	—	—	—	—	—	4
Stock compensation for LMI options held by Liberty employees (note 13)	—	—	—	(4)	—	—	—	—	—	(4)
AT&T tax sharing agreement adjustments (note 10)	—	—	—	(40)	—	—	—	—	—	(40)
Adjustment of spin off of LMI	—	—	—	(28)	—	—	—	—	—	(28)
Other	—	—	—	8	—	—	2	—	—	10
Balance at December 31, 2005	$ —	27	1	29,098	3,421	—	(24)	(13,278)	(125)	19,120

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 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.

(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 $67 million and $65 million at December 31, 2005 and 2004, 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				
2005	$65	38	—	(36)	67
2004	$80	20	—	(35)	65
2003	$18	16	62	(16)	80

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.

The Company records a reserve for obsolete inventory as a percent of gross inventory based on historical experience. A summary of activity in the reserve for obsolete inventory account is as follows:

	Balance beginning of year	Additions		Deductions-write-offs	Balance end of year
		Charged to expense	Acquisitions		
	amounts in millions				
2005	$88	75	—	(73)	90
2004	$93	54	—	(59)	88
2003	$—	19	93	(19)	93

Program Rights

Program rights are amortized on a film-by-film basis over the anticipated number of exhibitions. Program rights payable are initially recorded at the estimated cost of the programs when the film is available for airing.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value. 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 than as dividends or other distributions are received. Losses are 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. At December 31, 2005 and for the three years then ended none of the Company's derivatives were designated as hedges.

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

The Company accounts for its intangible assets pursuant to 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") not be amortized, but instead be tested for impairment at least annually. Equity method goodwill is also not 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 requires the Company to perform an annual assessment of whether there is an indication that goodwill is impaired. To accomplish this, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. 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 is allocated to various reporting units which include a single equity method investment as its only asset. 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 determines the fair value of its reporting units using independent appraisals, public trading prices and other means. The Company then compares the fair value of each reporting unit to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, the Company compares 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, and records an impairment charge to the extent the carrying amount exceeds the implied fair value.

Goodwill

Changes in the carrying amount of goodwill for the year ended December 31, 2005 are as follows:

	QVC, Inc.	Starz Entertainment Group LLC	Other(3)	Total
		amounts in millions		
Balance at January 1, 2005	$4,048	1,383	1,507	6,938
Acquisitions(1)	—	—	10	10
Foreign currency translation adjustments	23	—	—	23
Other(2)	(14)	—	(4)	(18)
Balance at December 31, 2005	$4,057	1,383	1,513	6,953

(1) During the year ended December 31, 2005, subsidiaries of Liberty completed several small acquisitions. In connection with these acquisitions, Liberty recorded additional goodwill of $10 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 to (1) the reversal of income tax reserves recorded when Liberty purchased a controlling interest in QVC and (2) 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 $1,371 million is allocable to reporting units, whether they are consolidated subsidiaries or equity method investments. Total enterprise-level goodwill at December 31, 2005, which is included in Other, is allocated as follows (amounts in millions).

Entity	Allocable goodwill
QVC	$1,216
Courtroom Television Network, LLC ("Court TV")	124
GSN, LLC ("GSN")	17
Other	14
	$1,371

Starz Entertainment Group LLC ("SEG") 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 SEG, 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 SEG. 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.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization are comprised of the following:

	December 31, 2005			December 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
	amounts in millions					
Distribution rights	$2,628	(788)	1,840	2,618	(589)	2,029
Customer relationships	2,365	(398)	1,967	2,347	(224)	2,123
Other	653	(432)	221	622	(338)	284
Total	$5,646	(1,618)	4,028	5,587	(1,151)	4,436

Amortization of intangible assets with finite useful lives was $477 million, $486 million and $267 million for the years ended December 31, 2005, 2004 and 2003, 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):

2006	$451
2007	$410
2008	$376
2009	$343
2010	$333

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 years ended December 31, 2005 and 2004 and the four months ended December 31, 2003 aggregated $1,287 million, $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 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.
- Revenue from content distribution 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 $46 million, $49 million and $19 million for the years ended December 31, 2005, 2004 and 2003, 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, no compensation expense is recognized for fixed plan awards because the exercise price is equal to the market price of the underlying common stock on the date of grant. 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,		
	2005	2004	2003
	amounts in millions, except per share amounts		
Earnings (loss) from continuing operations	$ (64)	100	(1,229)
Add stock compensation as determined under the intrinsic value method, net of taxes	2	2	2
Deduct stock compensation as determined under the fair value method, net of taxes	(47)	(44)	(49)
Pro forma earnings (loss) from continuing operations	$(109)	58	(1,276)
Basic and diluted earnings (loss) from continuing operations per share:			
As reported	$ (.02)	.04	(.44)
Pro forma	$ (.04)	.02	(.46)

Income Taxes

The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying value amounts and income tax bases of assets and liabilities and the expected benefits of utilizing net operating loss and tax credit carryforwards. The deferred tax assets and liabilities are calculated using enacted tax rates in effect for each taxing jurisdiction in which the company operates for the year in which those temporary differences are expected to be recovered or settled. Net deferred tax assets are then reduced by a valuation allowance if the Company believes it more-likely-than-not such net deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

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 2,795 million and 2,856 million weighted average shares outstanding for the years ended December 31, 2005 and 2004, respectively. The diluted EPS calculation for 2005 and 2004 includes 13 million and 14 million potential common shares, respectively. 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, 2005, 2004 and 2003, are 71 million, 72 million and 84 million potential common shares because their inclusion would be anti-dilutive.

Reclassifications

Certain prior period amounts have been reclassified for comparability with the 2005 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 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 that will be settled in cash) based on the current fair value of the award, and to remeasure the fair value of the award at each reporting date.

Public companies are required to adopt Statement 123R as of the beginning of the first fiscal year that begins after June 15, 2005, or January 1, 2006 for calendar-year companies such as Liberty. The provisions of Statement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after December 31, 2005. The accounting for awards granted, but not vested, prior to January 1, 2006 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 December 31, 2005 pro forma information as though the standard had been adopted for all periods presented.

Liberty currently estimates that upon adoption of Statement 123R, it will be required to record a $125 million charge to earnings (before related income taxes) as the cumulative effect of a change in accounting. Such charge primarily represents the aggregate differences between the fair value and intrinsic value of the Company's liability awards. In addition, at December 31, 2005, the Company has approximately $65 million of unamortized stock-based compensation related to equity awards granted prior to January 1, 2006 that will be amortized into its statement of operations over approximately 4 years.

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

We have revised our 2004 and 2003 statements of cash flows to separately disclose the operating, investing and financing portions of the cash flows attributable to our discontinued operations. We previously had reported these amounts on a combined basis.

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 18	85	9,996
Net liabilities assumed	—	(2)	(968)
Long-term debt issued	—	—	(4,000)
Deferred tax liability	—	—	(1,612)
Minority interest	(13)	10	(49)
Common stock issued	—	—	(2,656)
Cash paid for acquisitions, net of cash acquired	$ 5	93	711
Cash paid for interest	$477	515	400
Cash paid for income taxes	$162	50	56

(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 were 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 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 recorded the acquisition of QVC as a step acquisition, and accordingly, QVC's assets and liabilities were 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 was recorded as goodwill. 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	$ 6,145
Loss from continuing operations	$(1,182)
Net loss	$(1,175)
Loss per common share	$ (.41)

(5) ***Discontinued Operations***

Spin Off of Discovery Holding Company

On July 21, 2005 (the "DHC Spin Off Date"), Liberty completed the spin off (the "DHC Spin Off") of DHC to its shareholders. The DHC Spin Off was effected as a dividend by Liberty to holders of its Series A and Series B common stock of shares of DHC Series A and Series B common stock, respectively. Holders of Liberty common stock on July 15, 2005 received 0.10 of a share of DHC Series A common stock for each share of Liberty Series A common stock owned and 0.10 of a share of DHC Series B common stock for each share of Liberty Series B common stock owned. The DHC Spin Off did not involve the payment of any consideration by the holders of Liberty common stock and is intended to qualify as a tax-free transaction. At the time of the DHC Spin Off, DHC's assets were comprised of Liberty's 100% ownership interest in Ascent Media Group, LLC, Liberty's 50% ownership interest in Discovery Communications, Inc. and $200 million in cash.

Following the DHC Spin Off, DHC and Liberty operate independently, and neither has any stock ownership, beneficial or otherwise, in the other. In connection with the DHC Spin Off, DHC and

Liberty entered into certain agreements in order to govern certain of the ongoing relationships between Liberty and DHC after the DHC 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 DHC Spin Off and cross indemnities. Pursuant to the Facilities and Services Agreement, Liberty provides DHC with office space and certain general and administrative services including legal, tax, accounting, treasury, engineering and investor relations support. DHC reimburses Liberty for direct, out-of-pocket expenses incurred by Liberty in providing these services and for DHC'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 DHC. DHC is responsible for all other taxes with respect to returns which include DHC, but do not include Liberty whether accruing before, on or after the DHC Spin Off. The Tax Sharing Agreement requires that DHC will not take, or fail to take, any action where such action, or failure to act, would be inconsistent with or prohibit the DHC Spin Off from qualifying as a tax-free transaction. Moreover, DHC has indemnified Liberty for any loss resulting from such action or failure to act, if such action or failure to act precludes the DHC Spin Off from qualifying as a tax-free transaction.

Spin Off of Liberty Media International, Inc.

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

In addition to the assets in Liberty's International Group operating segment, Liberty also contributed certain monetary assets to LMI in connection with the LMI 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.

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

The Reorganization Agreement provided for, among other things, the principal corporate transactions required to effect the LMI Spin Off and cross indemnities.

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 LMI 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 LMI 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 LMI Spin Off from qualifying as a tax-free transaction.

In the third quarter of 2005, Liberty filed its 2004 tax return and adjusted the amount of net operating loss and capital loss carryforwards allocated to LMI. Such adjustment resulted in an increase to Liberty's deferred income tax liabilities and a reduction of additional paid-in capital of $28 million.

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 was principally engaged in programming, distributing and marketing digital and analog music services to homes and businesses and was included in Liberty's former Networks Group segment. On February 14, 2005, DMX commenced proceedings under Chapter 11 of the United States Bankruptcy Code. DMX 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. On May 16, 2005, the Bankruptcy Court entered a written order approving the transaction, and the sale transaction was completed. As a result of the DMX Bankruptcy filing, Liberty deconsolidated DMX effective January 1, 2005. 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 for the year ended December 31, 2004.

The consolidated financial statements and accompanying notes of Liberty have been prepared reflecting DHC, LMI and DMX as discontinued operations. Accordingly, the assets and liabilities, revenue, costs and expenses, and cash flows of DHC, 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.

Certain combined statement of operations information for DHC, LMI and DMX, which is included in earnings (loss) from discontinued operations, is as follows:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Revenue	$390	1,773	798
Earnings (loss) before income taxes and minority interests	$ 48	(93)	37

Certain asset and liability amounts for DHC as of July 21, 2005 are as follows (amounts in millions):

Investment in Discovery	$ 2,982
Goodwill	$ 2,135
Deferred tax liabilities	$(1,060)

(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,	
	2005	2004
	amounts in millions	
News Corp.	$ 8,171	9,667
IAC/InterActiveCorp ("IAC")	1,960	3,824
Time Warner Inc. ("Time Warner") (1)	2,985	3,330
Sprint Nextel Corporation ("Sprint") (2)	2,162	2,342
Motorola, Inc. ("Motorola") (3)	1,672	1,273
Other AFS equity securities (4)	1,088	1,023
Other AFS debt securities (5)	389	304
Other cost investments and related receivables	79	87
	18,506	21,850
Less short-term investments	(9)	(3)
	$18,497	21,847

(1) Includes $158 million and $176 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(2) Includes $94 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005.

(3) Includes $1,173 million and $654 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(4) Includes $156 million and $77 million of shares pledged as collateral for share borrowing arrangements at December 31, 2005 and 2004, respectively.

(5) At December 31, 2005, other AFS debt securities include $371 million of investments in third-party marketable debt securities held by Liberty parent and $18 million of such securities held by subsidiaries of Liberty. At December 31, 2004, such investments aggregated $276 million and $28 million, respectively.

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 ADS. 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 ADSs. 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. 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. At December 31, 2005, Liberty has an approximate 16% economic interest and an approximate 19% voting interest in News Corp.

IAC/InterActiveCorp

Effective August 9, 2005, IAC completed the spin-off of its subsidiary, Expedia, Inc. ("Expedia"). Shareholders of IAC, including Liberty, received one share of Expedia for each share of IAC owned. Subsequent to the spin-off of Expedia, Liberty owns approximately 20% of the outstanding Expedia common stock representing a 52% voting interest. However, under existing governance arrangements, the Chairman of Expedia is currently entitled to vote Liberty's shares of Expedia, subject to certain limitations. As Liberty has appointed two out of nine members of Expedia's board of directors, it accounts for this investment using the equity method of accounting. Liberty allocated its pre-spin off carrying value in IAC between IAC and Expedia based on the relative trading prices of IAC and Expedia. Unrealized holding gains included in the carrying value allocated to Expedia were reversed as part of this allocation.

At December 31, 2005, Liberty owns approximately 22% of IAC common stock representing an approximate 54% voting interest. However, under existing governance arrangements, the Chairman of IAC is currently entitled to vote Liberty's shares, and due to the fact that Liberty has rights to appoint only two of thirteen members to the IAC board of directors, Liberty's ability to exert significant influence over IAC is limited at this time. Accordingly, Liberty accounts for this investment as an AFS security.

Other

During the fourth quarter of 2003, Liberty sold all of its shares of Vivendi Universal 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, 2005, 2004 and 2003, Liberty determined that certain of its AFS securities (including News Corp. in 2005) and cost investments experienced nontemporary declines

in value. The primary factors considered by Liberty in determining the timing of the recognition for the majority of these impairments was the length of time the investments traded below Liberty's cost bases and the lack of near-term prospects for recovery in the stock prices. As a result, the carrying amounts of such investments were adjusted to their respective fair values based primarily on quoted market prices at the balance sheet date. These adjustments are reflected as nontemporary declines in fair value of investments in the consolidated statements of operations. The amount of nontemporary decline recognized for Liberty's News Corp. voting shares in 2005 was $352 million.

Unrealized Holdings Gains and Losses

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

	December 31, 2005		December 31, 2004	
	Equity securities	Debt securities	Equity securities	Debt securities
	amounts in millions			
Gross unrealized holding gains	$5,459	17	7,292	19
Gross unrealized holding losses	$ (27)	—	(15)	—

The aggregate fair value of securities with unrealized holding losses at December 31, 2005 was $411 million. None of these securities had unrealized losses for more than 12 continuous months.

(7) ***Derivative Instruments***

The Company's derivative instruments are summarized as follows:

Type of derivative	December 31, 2005	December 31, 2004
	amounts in millions	
Assets		
Equity collars	$1,568	2,016
Put spread collars	133	291
Other	83	121
	1,784	2,428
Less current portion	(661)	(827)
	$1,123	1,601
Liabilities		
Exchangeable debenture call option obligations	$ 927	1,102
Put options	342	445
Equity collars	160	398
Borrowed shares	1,581	907
Other	16	139
	3,026	2,991
Less current portion	(1,939)	(1,179)
	$1,087	1,812

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 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.

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 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.

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 and Freescale Semiconductor, Inc. common stock, Viacom Class B and CBS Corporation 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 are comprised of the following:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Change in fair value of exchangeable debenture call option feature	$ 172	(129)	(158)
Change in the fair value of equity collars	311	(941)	(483)
Change in the fair value of borrowed shares	(205)	(227)	(121)
Change in the fair value of put options	(66)	2	108
Change in the fair value of put spread collars	9	8	21
Change in fair value of other derivatives(1)	36	3	(28)
	$ 257	(1,284)	(661)

(1) Comprised primarily of 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, 2005 and the carrying amount at December 31, 2004:

	December 31, 2005		December 31, 2004
	Percentage Ownership	Carrying Amount	Carrying Amount
		dollar amounts in millions	
Expedia	20%	$1,213	—
Court TV	50%	297	277
GSN	50%	255	251
Other	various	143	256
		$1,908	784

Expedia

IAC completed the spin off of Expedia on August 9, 2005. Accordingly, the Company recorded its share of earnings of Expedia for the five months ended December 31, 2005. The fair value of the Company's investment in Expedia was $1,659 million at December 31, 2005. Summarized financial

information as of December 31, 2005 and for the year then ended for Expedia is as follows (amounts in millions):

Consolidated Balance Sheet	
Current assets	$ 590
Property and equipment	91
Goodwill	5,860
Intangible assets	1,177
Other assets	39
Total assets	$7,757
Current liabilities	$1,438
Deferred income taxes	369
Other liabilities	144
Minority interest	72
Stockholders' equity	5,734
Total liabilities and equity	$7,757
Consolidated Statement of Operations	
Revenue	$2,120
Cost of revenue	(471)
Gross profit	1,649
Selling, general and administrative	(1,034)
Stock compensation	(92)
Amortization	(126)
Operating income	397
Interest income	49
Other expense	(31)
Income tax expense	(186)
Net earnings	$ 229

(9) ***Long-Term Debt***

Debt is summarized as follows:

	Outstanding principal December 31, 2005	Carrying value December 31, 2005	Carrying value December 31, 2004
	amounts in millions		
Parent company debt:			
Senior notes and debentures			
3.5% Senior Notes due 2006	$ 121	121	513
Floating Rate Senior Notes due 2006	1,247	1,247	2,463
7.875% Senior Notes due 2009	670	666	711
7.75% Senior Notes due 2009	234	235	235
5.7% Senior Notes due 2013	802	800	800
8.5% Senior Debentures due 2029	500	495	495
8.25% Senior Debentures due 2030	902	895	951
Senior exchangeable debentures			
4% Senior Exchangeable Debentures due 2029	869	251	249
3.75% Senior Exchangeable Debentures due 2030	810	231	228
3.5% Senior Exchangeable Debentures due 2031	600	235	231
3.25% Senior Exchangeable Debentures due 2031	551	117	118
0.75% Senior Exchangeable Debentures due 2023	1,750	1,552	1,473
	9,056	6,845	8,467
QVC bank credit facility	800	800	—
Other subsidiary debt	105	105	109
Total debt	$9,961	7,750	8,576
Less current maturities		(1,379)	(10)
Total long-term debt		$ 6,371	8,566

Parent Company Debt

During the year ended December 31, 2005, and pursuant to a previously announced debt reduction plan, Liberty retired $1,719 million principal amount of its parent company debt (primarily comprised of its senior notes) for aggregate cash consideration of $1,731 million plus accrued interest. In connection with these debt retirements, Liberty recognized a loss on early extinguishment of debt of $18 million, which is included in other income (expense) in the accompanying consolidated statement of operations.

Senior Notes and Debentures

The Floating Rate Notes accrue interest at 3 month LIBOR plus a margin. At December 31, 2005 the borrowing rate was 5.99%.

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 $17 million and $20 million at December 31, 2005 and 2004, respectively, which is being amortized to interest expense in the accompanying consolidated statements of operations.

Senior Exchangeable Debentures

Each $1,000 debenture of Liberty's 4% Senior Exchangeable Debentures 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.

Each $1,000 debenture of Liberty's 3.75% Senior Exchangeable Debentures 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.

Each $1,000 debenture of Liberty's 3.5% Senior Exchangeable Debentures 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. 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.

Each $1,000 debenture of Liberty's 3.25% Senior Exchangeable Debentures is exchangeable at the holder's option for the value of 9.2833 shares of Viacom Class B common stock and 9.2833 shares of CBS Corporation ("CBS") Class B common stock, which Viacom spun off to its shareholders in December 2005. Such exchange value is payable at Liberty's option in cash, Viacom and CBS 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.

Each $1,000 debenture of Liberty's 0.75% Senior Exchangeable Debentures 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, 2005, 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 the Company's exchangeable debentures aggregated $89 million, $83 million and $61 million during the years ended December 31, 2005, 2004 and 2003, respectively, and is included in interest expense in the accompanying consolidated statements of operations.

QVC Bank Credit Facility

Effective May 20, 2005, QVC entered into a $2 billion bank credit facility (the "QVC Credit Facility"). The QVC Credit Facility is comprised of an $800 million term loan that was drawn at closing, a $400 million U.S. dollar term loan that can be drawn at any time before September 30, 2006, a $400 million multi-currency term loan that can be drawn at any time before September 30, 2006, a $200 million U.S. dollar revolving loan and a $200 million multi-currency revolving loan. The foregoing multi-currency loans can be made, at QVC's option, in U.S. dollars, Japanese yen, U.K. pound sterling or euros. All loans are due and payable on May 20, 2010, and accrue interest (4.94% at December 31, 2005), at the option of QVC, at LIBOR plus an applicable margin or the Alternative Base Rate, as defined in the QVC Credit Facility, plus an applicable margin. QVC is required to pay a commitment fee quarterly in arrears on the unused portion of the commitments.

The QVC Credit Facility contains restrictive covenants, which require among other things, the maintenance of certain financial ratios and include limitations on indebtedness, liens, encumbrances, dispositions, guarantees and dividends. QVC was in compliance with its debt covenants at December 31, 2005.

Other Subsidiary Debt

Other subsidiary debt at December 31, 2005 is comprised primarily of capitalized satellite transponder lease obligations.

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):

2006	$1,379
2007	$ 11
2008	$1,762
2009	$ 916
2010	$ 12

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, 2005 is as follows (amounts in millions):

Fixed rate senior notes	$1,838
Floating rate senior notes	$1,228
Senior debentures	$1,347
Senior exchangeable debentures, including call option obligation	$3,858

Liberty believes that the carrying amount of its subsidiary debt approximated fair value at December 31, 2005.

(10) ***Income Taxes***

Income tax benefit (expense) consists of:

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Current:			
Federal	$(100)	(177)	(4)
State and local	(75)	(61)	(29)
Foreign	(89)	(114)	(40)
	(264)	(352)	(73)
Deferred:			
Federal	237	166	(224)
State and local	170	59	(44)
Foreign	(2)	8	(1)
	405	233	(269)
Income tax benefit (expense)	$ 141	(119)	(342)

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,		
	2005	2004	2003
	amounts in millions		
Computed expected tax benefit (expense)	$ 72	(77)	310
Change in foreign and state tax rates	147	—	—
State and local income taxes, net of federal income taxes	16	(6)	(45)
Foreign taxes	(31)	(47)	(40)
Change in valuation allowance affecting tax expense	(59)	(12)	(65)
Recognition of tax basis in equity of DMX	—	38	—
Goodwill impairment charges not deductible for income tax purposes	—	—	(477)
Other, net	(4)	(15)	(25)
Income tax benefit (expense)	$141	(119)	(342)

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,	
	2005	2004
	amounts in millions	
Deferred tax assets:		
Net operating and capital loss carryforwards	$ 787	1,116
Accrued stock compensation	90	125
Other future deductible amounts	406	189
Deferred tax assets	1,283	1,430
Valuation allowance	(459)	(400)
Net deferred tax assets	824	1,030
Deferred tax liabilities:		
Investments	6,033	7,297
Intangible assets	2,528	2,465
Discount on exchangeable debentures	1,006	863
Other	112	240
Deferred tax liabilities	9,679	10,865
Net deferred tax liabilities	$8,855	9,835

The Company's deferred tax assets and liabilities are reported in the accompanying consolidated balance sheets as follows:

	December 31,	
	2005	2004
	amounts in millions	
Current deferred tax asset	$ (33)	(28)
Current deferred tax liabilities	160	162
Long-term deferred tax liabilities	8,728	9,701
Net deferred tax liabilities	$8,855	9,835

The Company's valuation allowance increased $59 million in 2005.

At December 31, 2005, Liberty had net operating and capital loss carryforwards for income tax purposes aggregating approximately $1,943 million which, if not utilized to reduce taxable income in future periods, will expire as follows: 2006: $3 million; 2007: $2 million; 2008: $12 million; 2009: $392 million; 2010: $4 million and beyond 2010: $1,530 million. Of the foregoing net operating and capital loss carryforward amount, approximately $871 million is subject to certain limitations and may not be currently utilized. The remaining $1,072 million is currently available to be utilized to offset future taxable income of Liberty's consolidated tax group.

Since the date Liberty issued its exchangeable debentures, it has claimed interest deductions on such exchangeable debentures for federal income tax purposes based on the "comparable yield" at which it could have issued a fixed-rate debenture with similar terms and conditions. In all instances, this policy has resulted in Liberty claiming interest deductions significantly in excess of the cash interest currently paid on its exchangeable debentures. Interest deducted in prior years on its exchangeable debentures has contributed to net operating losses ("NOLs") that may be carried to offset taxable income in 2005 and later years. These NOLs and current interest deductions on its exchangeable debentures are being used to offset taxable income currently being generated.

The IRS has issued Technical Advice Memorandums ("TAMs") challenging the current deductibility of interest expense claimed on exchangeable debentures issued by other companies. The TAMs conclude that such interest expense must be capitalized as basis to the shares referenced in the exchangeable debentures. If the IRS were to similarly challenge Liberty's tax treatment of these interest deductions, and ultimately win such challenge, there would be no impact to Liberty's reported total tax expense as the resulting increase in current tax expense would be offset by a decrease in its deferred tax expense. However, the NOLs Liberty has recorded would not be available to offset its current taxable income, and Liberty would be required to make current federal income tax payments. These federal income tax payments could prove to be significant.

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"). While Liberty was a subsidiary of AT&T, Liberty recorded its stand-alone tax provision on a separate return basis. 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 its 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 Liberty in future periods, similar to a net operating loss carryforward, and were accounted for as a deferred federal income tax benefit. Subsequent to Liberty's spin off from AT&T, if adjustments are made to amounts previously paid under the AT&T Tax Sharing Agreement, such adjustments are reflected as adjustments to additional paid-in capital. During the period from March 10, 1999 to December 31, 2002, Liberty received cash payments from AT&T aggregating $670 million as payment for Liberty's taxable losses that AT&T utilized to reduce its income tax liability.

Also, pursuant to the AT&T Tax Sharing Agreement and in connection with the split off from AT&T, AT&T was required to pay Liberty an amount equal to 35% of the amount of the NOLs reflected in TCI's final federal income tax return that had not been used as an offset to Liberty's obligations under the AT&T Tax Sharing Agreement and that had been, or were reasonably expected to be, utilized by AT&T. In connection with the split off, Liberty received an $803 million payment for TCI's NOLs and recorded such payment as an increase to additional paid-in capital. Liberty was not paid for certain of TCI's NOLs (''SRLY NOLs'') due to limitations and uncertainty regarding AT&T's ability to use them to offset taxable income in the future. In the event AT&T was ultimately able to use any of the SRLY NOLs, they would be required to pay Liberty 35% of the amount of the SRLY NOLs used. In the fourth quarter of 2004 and in connection with the completion of an IRS audit of TCI's tax return for 1994, it was determined that Liberty was required to recognize additional taxable income related to the recapitalization of one of its investments resulting in a tax liability of approximately $30 million. As a result of the tax assessment, Liberty also received a corresponding amount of additional tax basis in the investment. However, Liberty was able to cause AT&T to use a portion of the SRLY NOLs to offset this taxable income, the benefit of which resulted in the elimination of the $30 million tax liability and an increase to additional paid-in capital.

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 was able to carry back to offset taxable income previously offset by Liberty's losses. AT&T has asserted that Liberty's losses caused AT&T to pay $70 million in alternative minimum tax (''AMT'') that it would not have been otherwise required to pay had Liberty's losses not been included in its return. In 2004, Liberty estimated that it may ultimately pay AT&T up to $30 million of the requested $70 million because Liberty believed AT&T received an AMT credit of $40 million against income taxes resulting from the AMT previously paid. Accordingly, Liberty accrued a $30 million liability with an offsetting reduction of additional paid-in capital. The net effect of the completion of the IRS tax audit noted above (including the benefit derived from AT&T for the utilization of the SRLY NOLs) and Liberty's accrual of amounts due to AT&T was an increase to deferred tax assets and an increase to other liabilities.

In the fourth quarter of 2005, AT&T requested an additional $21 million relating to additional losses it generated and was able to carry back to offset taxable income previously offset by Liberty's losses. In addition, the information provided to Liberty in connection with AT&T's request shows that AT&T has not yet claimed a credit for AMT previously paid. Accordingly, in the fourth quarter of 2005, Liberty increased its accrual by approximately $40 million (with a corresponding reduction of additional paid-in capital) representing its estimate of the amount it may ultimately pay (excluding accrued interest, if any) to AT&T as a result of this request. Although Liberty has not reduced its accrual for any future refunds, Liberty believes it is entitled to a refund when AT&T is able to realize a benefit in the form of a credit for the AMT previously paid.

In March 2006, AT&T requested an additional $21 million relating to additional losses and IRS audit adjustments that it claims it is able to use to offset taxable income previously offset by Liberty's losses. Liberty is currently reviewing this claim and has not recorded an accrual for this request in its consolidated financial statements for the year ended December 31, 2005.

Although for accounting purposes Liberty has accrued a portion of the amounts claimed by AT&T to be owed by Liberty under the AT&T Tax Sharing Agreement, Liberty believes there are valid defenses or set-off or similar rights in its favor that may cause the total amount that it owes AT&T to be less than the amounts accrued.

(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, 2005, no shares of preferred stock were issued.

Common Stock

Liberty's Series A common stock has one vote per share, and its 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, 2005, there were 52.8 million shares of Liberty Series A common stock and 30.0 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 2005, Liberty sold put options with respect to shares of its Series A common stock for net cash proceeds of $2 million. Liberty accounts for the put options pursuant to Statement of Financial Accounting Standards No. 150, *''Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity''* (''Statement 150''). Accordingly, the put options are recorded at fair value, and changes in the fair value are included in realized and unrealized gains (losses) on derivative instruments in the accompanying consolidated statement of operations. At December 31, 2005, Liberty had outstanding put options with respect to 12.5 million shares of its Series A common stock with an average put price of $7.88 per share. All of these put options expire within 45 days after December 31, 2005.

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. Liberty net cash settled all of its Z-calls during the first quarter of 2005 for net cash proceeds of $63 million, which primarily represented the return of collateral posted by Liberty in 2004. Liberty accounts for the Z-Calls pursuant to Statement No. 150. Changes in the fair value of the Z-Calls are included in realized and unrealized gains (losses) on derivative 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.

During the year ended December 31, 2003, the Company purchased 42.3 million shares of its common stock for aggregate cash consideration of $437 million. 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.

(12) ***Transactions with Officers and Directors***

Chairman's Employment Agreement

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, 2005 is $1.9 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 ($102,991 per month as of December 31, 2005). 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, 2005 is $24.7 million, and is included in other liabilities in the accompanying consolidated balance sheet.

The Company's Chairman deferred a portion of his monthly compensation under his previous employment agreement with Tele-Communications, Inc. ("TCI"). The Company assumed the obligation to pay that deferred compensation in connection with the TCI/AT&T Merger in 1999. The deferred obligation (together with interest at the rate of 13% per annum compounded annually), which aggregated $13.9 million at December 31, 2005 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

In September 2000, certain officers of Liberty purchased a 6% common stock interest in a subsidiary for $1.3 million. Such subsidiary owned an indirect interest in an entity that held certain of Liberty's investments in satellite and technology related assets. Liberty and the officers entered into a shareholders agreement in which the officers could require Liberty to purchase, after five years, all or part of their common stock interest in exchange for Series A Liberty stock at the then fair market value. In addition, Liberty had the right to purchase, in exchange for Series A Liberty common stock, the common stock interests held by the officers at fair market value at any time. During 2001, two of the officers resigned their positions with the Company, and the Company purchased their respective interests in the subsidiary for the original purchase price plus 6% interest. In December 2005, Liberty redeemed all of the remaining shares of common stock of the subsidiary from the officers for aggregate cash proceeds of $80.

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 Liberty's interest in TruePosition, Inc. and certain equity interests in Sprint Nextel Corporation and IDT Investments, Inc.

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, 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.

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.

Awards granted pursuant to the Liberty Incentive Plan and the NDIP during the years ended December 31, 2005, 2004 and 2003 are provided in the table below. The exercise prices in the table represent the exercise price on the date of grant and have not been adjusted for the effects of the LMI Spin Off and the DHC Spin Off.

Grant year	Grant group	Grant type	Number of awards granted	Weighted average exercise price	Vesting period	Term	Weighted average grant date fair value
Series A Awards							
2003	Employees	SARs	4,667,000	$11.09	5 years	10 years	$5.57
2003	Employees	SARs	1,500,000	$14.33	5 years	10 years	$5.57
2003	Directors	SARs	66,000	$11.85	1 year	10 years	$5.93
2004	Employees	SARs	4,011,450	$ 8.45	5 years	10 years	$4.36
2004	Directors	SARs	66,000	$11.00	1 year	10 years	$5.84
2005	Employees	Options	9,076,750	$ 8.26	4 years	7 years	$2.34
2005	Directors	SARs	55,000	$10.36	1 year	10 years	$4.50
Series B Awards							
2005	Employees	Options	1,800,000	$ 9.21	3 years	10 years	$4.67

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 Treasury rate for bonds with the same expected term as the Award; (b) a 21% volatility factor; (c) the expected term of the Award; (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 LMI 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 LMI 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.

In connection with the DHC 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 DHC, (2) employees of Liberty in departments of Liberty that were expected to provide services to DHC pursuant to the Facilities and Services Agreement and (3) directors of Liberty were divided into (A) an option to purchase shares of DHC common stock equal to 0.10 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 DHC 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 DHC common stock in the DHC Spin Off.

Pursuant to the Reorganization Agreement Liberty is responsible for settlement of all Liberty Awards whether held by Liberty employees or DHC employees, and DHC is responsible for settlement of all DHC Awards whether held by Liberty employees or DHC employees. Liberty will continue to record compensation for all Liberty and DHC Awards held by Liberty employees. The compensation for DHC 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, 2003	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 LMI Spin Off	4,321		—	
Outstanding at December 31, 2004	55,976	$ 9.15	28,165	$12.94
Granted	9,189	$ 8.28	1,800	$ 9.21
Exercised	(14,249)	$ 2.05	—	
Repurchased	(1,121)	$23.59	—	
Canceled	(2,211)	$13.93	—	
Adjustments related to DHC Spin Off	4,145		—	
Outstanding at December 31, 2005	51,729	$ 9.23	29,965	$10.92
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
Exercisable at December 31, 2005	32,953	$ 9.52	23,236	$11.03

The following table provides additional information about the Company's outstanding options to purchase Liberty Series A common stock at December 31, 2005.

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
7,022	$ 0.55 - $ 3.72	$ 0.74	0.2 years	7,022	$ 0.74
21,576	$ 5.55 - $ 9.87	$ 8.17	6.8 years	6,089	$ 8.10
22,193	$10.65 - $ 12.16	$10.79	5.1 years	18,963	$10.79
938	$16.82 - $251.69	$60.09	4.8 years	879	$62.03
51,729				32,953	

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 $2,960. 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, 2005, there were a total of 186,789 options and SARs outstanding, 77,862 of which were vested at a weighted average exercise price of $1,148 and 108,927 of which were unvested at a weighted average exercise price of $2,324. During the years ended December 31, 2005 and 2004, QVC received cash proceeds from the exercise of options aggregating $46 million and $39 million, respectively. In 2005 and 2004, QVC also repurchased shares of common stock issued upon exercise of stock options in prior years. Cash payments aggregated $71 million and $168 million, respectively, for these repurchases.

As of December 31, 2005, Liberty had granted to certain officers and employees of QVC a total of 6,383,410 restricted shares of Liberty Series A common stock. Such shares generally vest as to 50% on each of January 1, 2006 and 2007.

SEG

SEG has outstanding Phantom Stock Appreciation Rights ("PSARS") held by its former chief executive officer. Such PSARs are fully vested and expire on October 17, 2011, and SEG has accrued $131 million as of December 31, 2005 related to the PSARs. Such amount is payable in cash, Liberty common stock or a combination thereof. In December 2005, SEG terminated a second PSAR plan for certain of its other executive officers and made cash payments aggregating $7 million upon termination.

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 $24 million, $23 million and $12 million for the years ended December 31, 2005, 2004 and 2003, 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, 2003	$(316)	809	493
Other comprehensive earnings	35	2,713	2,748
Balance at December 31, 2003	(281)	3,522	3,241
Other comprehensive earnings	23	1,002	1,025
Contribution to LMI	—	(51)	(51)
Other activity	9	(9)	—
Balance at December 31, 2004	(249)	4,464	4,215
Other comprehensive loss	307	(1,101)	(794)
Balance at December 31, 2005	$ 58	3,363	3,421

Included in Liberty's accumulated other comprehensive earnings (loss) at December 31, 2004 was $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 Global, Inc. ("Telewest"), another former equity method investment of Liberty. In the first quarter of 2005, Liberty disposed of its interests in Cablevisión and Telewest. Accordingly, Liberty recognized in its statement of operations $488 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, 2005:			
Foreign currency translation adjustments	$ (8)	3	(5)
Reclassification adjustment for currency losses realized in net earnings	503	(191)	312
Unrealized holding losses on securities arising during period	(1,808)	687	(1,121)
Reclassification adjustment for holding gains realized in net earnings	350	(133)	217
Reclass unrealized gain on AFS security	(318)	121	(197)
Other comprehensive loss	$(1,281)	487	(794)
Year ended December 31, 2004:			
Foreign currency translation adjustments	$ 38	(15)	23
Unrealized holding losses on securities arising during period	2,443	(953)	1,490
Reclassification adjustment for holding gains realized in net earnings	(800)	312	(488)
Other comprehensive earnings	$ 1,681	(656)	1,025
Year ended December 31, 2003:			
Foreign currency translation adjustments	$ 57	(22)	35
Unrealized holding gains on securities arising during period	5,477	(2,136)	3,341
Reclassification adjustment for holding gains realized in net loss	(1,030)	402	(628)
Other comprehensive earnings	$ 4,504	(1,756)	2,748

(16) *Transactions with Related Parties*

SEG pays Revolution Studios ("Revolution"), an equity affiliate, fees for the rights to exhibit films produced by Revolution. Payments aggregated $84 million, $99 million and $91 million in 2005, 2004 and 2003, respectively.

(17) *Commitments and Contingencies*

Film Rights

SEG, 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. SEG has entered into agreements with a number of motion picture producers which obligate SEG 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 SEG at December 31, 2005 is reflected as a liability in the accompanying consolidated balance sheet. The balance due as of December 31, 2005 is payable as follows: $191 million in 2006; $11 million in 2007; and $13 million thereafter.

SEG has also contracted to pay Programming Fees for films that have been released theatrically, but are not available for exhibition by SEG until some future date. These amounts have not been accrued at December 31, 2005. SEG's estimate of amounts payable under these agreements is as follows: $539 million in 2006; $178 million in 2007; $103 million in 2008; $95 million in 2009; $75 million in 2010 and $52 million thereafter.

In addition, SEG 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'') through 2010 and all qualifying films produced for theatrical release in the United States by Revolution through 2006. Films are generally available to SEG for exhibition 10-12 months after their theatrical release. The Programming Fees to be paid by SEG are based on the quantity and the domestic theatrical exhibition receipts of qualifying films. As these films have not yet been released in theatres, SEG 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, SEG has agreed to pay Sony a total of $190 million in four annual installments of $47.5 million beginning in 2011. This option expires December 31, 2007. If made, SEG'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 SEG of Programming Fees for qualifying films released by Sony during the extension period. If Disney elects to extend its contract, SEG is not obligated to pay any amounts in excess of its Programming Fees for qualifying films released by Disney during the extension period. The Disney option expires December 31, 2007.

Guarantees

Liberty guarantees SEG's obligations under certain of its studio output agreements. At December 31, 2005, Liberty's guarantees for obligations for films released by such date aggregated $779 million. While the guarantee amount for films not yet released is not determinable, such amount is expected to be significant. As noted above, SEG has recognized the liability for a portion of its obligations under the output agreements. As this represents a commitment of SEG, a consolidated subsidiary of Liberty, Liberty has not recorded a separate liability for its guarantee of these obligations.

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 satellite transponder lease agreements and uses certain equipment under lease arrangements. Rental expense under such arrangements amounted to $52 million, $57 million and $36 million for the years ended December 31, 2005, 2004 and 2003, respectively.

A summary of future minimum lease payments under noncancelable operating leases as of December 31, 2005 follows (amounts in millions):

Years ending December 31:	
2006	$27
2007	$22
2008	$19
2009	$16
2010	$ 9
Thereafter	$13

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 2005.

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.

Loss Contract

During the third quarter of 2005, a subsidiary of Liberty, TruePosition, Inc. (“TruePosition”), entered into an agreement with one of its major customers whereby TruePosition will remove and replace certain location-based equipment supplied by another vendor and currently installed in the customer’s network. TruePosition currently estimates that the costs to provide this equipment and service will exceed the revenue earned and that it will incur a loss of approximately $18 million on the contract. Since this agreement is an executory contract, TruePosition will recognize this loss during the term of the contract as material elements of the contract are delivered. TruePosition entered into this agreement because it believes its appointment as the customer’s exclusive provider of these services and the resulting future potential revenue earned from the customer’s continuing network build-out and expansion will exceed the loss computed on the contractual arrangement. However, no assurance can be given that future business from this customer will be sufficient to offset the loss incurred on this portion of the contract.

(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 two Groups based upon each businesses' services or products: Interactive Group and Capital Group. 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 represent 10% or more of its consolidated revenue, earnings before income taxes or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Liberty's pre-tax earnings. 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.

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, 2005, Liberty has identified the following consolidated subsidiaries as its reportable segments:

- 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.
- SEG—consolidated subsidiary that provides premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States.

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.

Performance Measures

	Years ended December 31,					
	2005		2004		2003	
	Revenue	Operating cash flow	Revenue	Operating cash flow	Revenue	Operating cash flow
	amounts in millions					
QVC	$6,501	1,422	5,687	1,230	1,973	434
SEG	1,004	171	963	239	906	368
Corporate and other	455	(5)	401	(30)	351	(77)
Consolidated Liberty	$7,960	1,588	7,051	1,439	3,230	725

Balance Sheet Information

	December 31,			
	2005		2004	
	Total assets	Investments in affiliates	Total assets	Investments in affiliates
	amounts in millions			
QVC	$15,602	2	14,314	78
SEG	2,966	45	2,945	52
Corporate and other	23,384	1,861	27,234	654
Discontinued operations	—	—	5,716	—
Consolidated Liberty	$41,952	1,908	50,209	784

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
Consolidated segment operating cash flow	$1,588	1,439	725
Stock compensation	(52)	(98)	91
Litigation settlement	—	42	—
Depreciation and amortization	(639)	(658)	(394)
Impairment of long-lived assets	—	—	(1,362)
Interest expense	(623)	(615)	(508)
Realized and unrealized gains (losses) on derivative instruments, net	257	(1,284)	(661)
Gains (losses) on dispositions, net	(365)	1,406	1,126
Nontemporary declines in fair value of investments	(449)	(129)	(22)
Other, net	119	121	118
Earnings (loss) from continuing operations before income taxes and minority interest	$ (164)	224	(887)

Revenue by Geographic Area

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

	Years ended December 31,		
	2005	2004	2003
	amounts in millions		
United States	$6,015	5,424	2,741
Germany	781	643	151
Other foreign countries	1,164	984	338
Consolidated Liberty	$7,960	7,051	3,230

Long-lived Assets by Geographic Area

	December 31,	
	2005	2004
	amounts in millions	
United States	$ 747	768
Germany	204	203
Other foreign countries	180	162
Consolidated Liberty	$1,131	1,133

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

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	amounts in millions, except per share amounts			
2005:				
Revenue	$1,821	1,839	1,850	2,450
Operating income	$ 203	188	179	327
Earnings (loss) from continuing operations	$ 239	(126)	(87)	(90)
Net earnings (loss)	$ 254	(107)	(94)	(86)
Basic and diluted earnings (loss) from continuing operations per common shares	$ .09	(.04)	(.03)	(.03)
Basic and diluted net earnings (loss) per common share	$ .09	(.04)	(.03)	(.03)
2004:				
Revenue	$1,606	1,641	1,632	2,172
Operating income	$ 210	178	152	185
Earnings (loss) from continuing operations	$ 71	(334)	359	4
Net earnings (loss)	$ (10)	(314)	372	(2)
Basic and diluted earnings (loss) from continuing operations per common share	$ .02	(.11)	.13	—
Basic and diluted net earnings (loss) per common share	$ —	(.11)	.13	—

CORPORATE DATA

Board of Directors

John C. Malone
Robert R. Bennett
Donne F. Fisher
Paul A. Gould
Gregory B. Maffei
David E. Rapley
M. LaVoy Robison
Larry E. Romrell

Executive Committee

Paul A. Gould
Gregory B. Maffei
John C. Malone

Compensation Committee

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Paul A. Gould
David E. Rapley
M. Lavoy Robison
Larry E. Romrell

Audit Committee

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

Nominating & Corporate Governance Committee:

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

Officers

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Chairman of the Board

Gregory B. Maffei
President and CEO

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

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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