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# **Report on Cableuropa, S.A.U. and its subsidiaries as of December 31, 2005**

## **Cableuropa, S.A.U. (Sole Shareholder Company)**

**Calle Basauri 7-9, Urbanización la Florida, 28023 Aravaca, Madrid, Spain**  
(Address of Principal Executive Offices)

Securities for which there is a reporting obligation under the Indentures:

**€100,000,000 Floating Rate Notes Due 2014**  
**€180,000,000 10.5% Fixed Rate Notes Due 2014**  
(issued by ONO Finance PLC)

**€270,000,000 8% Fixed Rate Notes Due 2014**  
(issued by ONO Finance II PLC)

**April 30, 2006**

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*In this Report, references to the "ONO Group," "ONO," "we," "us", "our" and "ours" are, as the context requires, to Cableuropa, S.A.U. and its subsidiaries including Auna Telecomunicaciones, S.A.U. and its subsidiaries from the date of the Auna Acquisition. References to "ONO" refer to the ONO Group following the Auna Acquisition. References to "Old ONO" refer to the ONO Group excluding the effect of the Auna Acquisition. References to "GCO" are to Grupo Corporativo ONO, S.A., our parent company. References to "Auna" and the "Auna Group" are to Auna Telecomunicaciones, S.A.U. and its subsidiaries.*

## **Financial Information**

We maintain our accounting records and prepare our statutory accounts in accordance with Spanish Generally Accepted Accounting Principles ("Spanish GAAP"). Our audited consolidated financial statements as of December 31, 2004 and 2005 and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 and unless otherwise indicated, other financial information relating to the ONO Group in this Report have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. Generally Accepted Accounting Principles ("U.S. GAAP") and International Financial Reporting Standards ("IFRS").

Our audited consolidated financial statements as of December 31, 2005 are based on the financial statements of each of the Group companies. The results of the Auna Group have been included since November, 2005, the date of Auna Acquisition. Throughout this document, our results for 2003 and 2004 do not include results for Auna. Our "actual" results for 2005 include consolidated results of Auna. Our "Old ONO" results are for Cableuropa, S.A.U. only on a non-consolidated basis.

Auna maintains its accounting records and prepares its statutory accounts in accordance with Spanish GAAP. Auna's audited consolidated financial information included in this Report has been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP and IFRS. In addition, you should note that certain accounting policies adopted by Auna in preparing its consolidated financial statements differ from those adopted by the ONO Group.

Unless otherwise indicated or otherwise required by the context, all references in this Report to "euro," "€" or "EUR" are to the lawful currency of the participating member states, including Spain, in the third stage of European economic and monetary Union of the Treaty establishing the European Community, as amended from time to time. References to "U.S. dollars," "USD," "dollars," "U.S.\$" or "\$" are to United States dollars, the lawful currency of the United States of America.

## **Non-GAAP Financial Measures**

EBITDA, annualized EBITDA as well as other annualized data and certain ratios presented in this Report are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, Spanish GAAP or U.S. GAAP. EBITDA and annualized EBITDA are not measurements of our financial performance or liquidity under Spanish GAAP or U.S. GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with Spanish GAAP or U.S. GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity.

We believe that EBITDA and annualized EBITDA facilitate comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), the age and booked depreciation and amortization of assets (affecting relative depreciation and amortization of expense), extraordinary items and minority interests. We also present EBITDA and annualized EBITDA because we believe that they are frequently used by securities analysts, investors and other interested parties in evaluating similar companies in our industry, many of whom present such non-GAAP financial measures when reporting their results. Finally, we present EBITDA and annualized EBITDA as a supplemental measure of our ability to service our debt.

Nevertheless, EBITDA and annualized EBITDA have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for analysis of, our financial condition or results of operations, as reported under Spanish GAAP. Some of these limitations are:

- EBITDA and annualized EBITDA measures do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA and annualized EBITDA measures do not reflect changes in our cash requirements or for working capital needs;
- EBITDA and annualized EBITDA measures do not reflect the interest expense or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA and annualized EBITDA measures do not reflect any cash requirements for such replacements;
- EBITDA and annualized EBITDA measures do not reflect extraordinary income/expense or any other non-cash items; and
- other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, EBITDA and annualized EBITDA should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our Spanish GAAP results and using EBITDA only supplementally measures. See the audited Consolidated Financial Statements included in Item 18 of this Report.

#### **Adjustments included in operating data for comparable purposes**

Auna included small office and home office customers within its "business services" division, while ONO includes these customers within its "residential services" division. In addition, ONO includes large business customers and wholesale customers within its "business services" division, while Auna included those customers in separate "large customer" and "wholesale" divisions. As a result, customer and revenue data relating to ONO divisions are not directly comparable to those relating to Auna divisions. For purposes of combined data prepared for the ONO Group as of December 31, 2005, we have adjusted Auna's customer data to reflect the reclassification of Auna's customers to the relevant ONO segment, based on a preliminary analysis of Auna's customer base, as well as the introduction of ONO's customer disconnection practices (ONO disconnects customers within 15 days of application, whereas Auna disconnects customers approximately three months following application).

#### **Total Homes and Businesses Data**

Total homes for each of our franchise areas are derived from the advances of the 2001 Spanish national census published by the National Statistics Institute of Spain (*Instituto Nacional de Estadística*, or "INE"). Total businesses for each of our franchise areas are derived from the 2005 businesses central directory, which is also published by INE. Although we accept responsibility for the accurate extraction of such data, we accept no further responsibility in respect of such data.

#### **Certain Operational Definitions**

In this Report, the following defined terms have the meanings indicated below:

"ARPU" means monthly average revenue per user, and is calculated by dividing total revenues generated from our telephony, Internet and cable television services provided to customers that are directly connected to our network in the last quarter of the relevant period by the average number of customers in that quarter, the result of which is divided by three. The average number of customers for any period is calculated by adding the number of customers at the beginning of the period to the number of customers at the end of the period and dividing by two.

"Churn" means the percentage obtained by dividing the number of customers who cease to receive any of our services (either voluntarily or involuntarily) in the last quarter of the relevant period by the average total number of customers during that quarter, multiplied by four. The average number of customers for any period is calculated by adding the number of customers at the beginning of the period to the number of customers at the end of the period and dividing by two.

"Homes passed" means homes for which all of the relevant network equipment has been activated. Homes passed can be released to marketing once the customer tap (an amplifier serving between four and eight homes) and drop (the final connection to a home) have been installed.

"Homes released to marketing" means a home to which we can provide telephony, Internet or cable television service within four days in Old ONO franchises and seven days in Auna's franchises, which occurs after the customer tap and drop have been installed.

"Penetration" is the percentage of customers over homes released to marketing in the ONO franchise areas, and with respect to any particular service, penetration is the percentage of RGUs of that service over homes released to marketing in the ONO franchise areas.

"RGUs" are revenue generating units where each customer is counted as a revenue generating unit for each service for which such customer subscribes; regardless of the number of services that customer receives from us. Thus a single customer who receives telephony, Internet and cable television services from us would account for three RGUs.

#### **Other**

Certain numerical figures included in this Report have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding. In addition, when describing the change in a percentage between two periods, the term "p.p." means percentage points.

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*PART I*

**ITEM 1. [RESERVED]**

**ITEM 2. [RESERVED]**

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The Selected Financial Data presented below has been derived from Cableuropa's audited consolidated financial statements as of and for the years December 31, 2001, 2002, 2003, 2004 and 2005. The information in this table is only a summary and does not provide all of the information contained in Cableuropa's audited consolidated financial statements. You should read the following financial information and operating data together with our audited consolidated financial statements and notes thereto included in Item 18 of this Report.

In addition, for the convenience of the reader and for comparable purposes, the Cableuropa's audited financial statements on an unconsolidated basis have been included in the tables below as of and for the year ended December 31, 2005.

The information presented below also includes other financial, as well as certain operating data, for the ONO Group and Old ONO.

<i>Data in € million</i>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	
					<b>Actual</b>	<b>Old ONO <sup>(1)</sup></b>
<b>Summary Income Statement Data:</b>						
<b>Revenues:</b>						
Residential	135.7	234.5	329.3	404.5	632.7	533.8
Business and other services	7.9	19.0	29.3	38.9	141.2	58.6
<b>Total revenues</b>	<b>143.6</b>	<b>253.4</b>	<b>358.6</b>	<b>443.4</b>	<b>773.9</b>	<b>592.4</b>
<b>Expenses:</b>						
Cost of services	74.3	94.1	119.0	127.9	226.0	159.3
Selling, general and administrative expenses	188.5	172.4	152.7	163.2	302.9	206.6
Costs capitalized	(61.8)	(28.9)	(15.2)	(19.1)	(30.6)	(22.5)
Restructuring and other related expense	9.1	—	—	—	—	—
Depreciation and amortization	85.3	104.0	106.7	100.8	264.4	221.0
<b>Total Operating expenses</b>	<b>295.4</b>	<b>341.6</b>	<b>363.2</b>	<b>372.8</b>	<b>762.6</b>	<b>564.4</b>
<b>Operating (loss)/profit</b>	<b>(151.8)</b>	<b>(88.2)</b>	<b>(4.6)</b>	<b>70.6</b>	<b>11.3</b>	<b>28.0</b>
Amortization of goodwill	(13.8)	(13.4)	(13.4)	(10.2)	(2.6)	—
Interest and other financial expense, net	(146.9)	(96.8)	(130.2)	(104.0)	(134.4)	(126.3)
Extraordinary income/(expense), net	(3.3)	(171.8)	298.2	(61.2)	(417.6)	(480.6)
<b>(Loss)/profit before tax and minority interests</b>	<b>(315.7)</b>	<b>(370.2)</b>	<b>150.0</b>	<b>(104.8)</b>	<b>(543.3)</b>	<b>(606.9)</b>
<b>Net (loss)/profit</b>	<b>(216.9)</b>	<b>(194.6)</b>	<b>97.0</b>	<b>(81.2)</b>	<b>(467.1)</b>	<b>(523.2)</b>

<i>Data in € million</i>	<b>2005</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Actual</b>	<b>Old ONO <sup>(1)</sup></b>
<b>Summary Balance Sheet Data:</b>						
Cash	0.6	1.3	1.3	4.1	7.0	6.3
Restricted cash <sup>(2)</sup>	27.6	39.1	—	—	—	—
Tangible assets, net	1,065.2	1,202.4	1,295.1	1,414.4	4,134.4	1,725.4
Total assets	2,087.4	2,259.3	2,123.3	2,205.1	6,086.2	4,625.6
Total debt <sup>(3)</sup>	1,204.8	1,303.3	1,065.7	1,164.1	2,720.9	2,665.2
Participative loans <sup>(4)</sup>	—	300.0	300.0	—	955.0	955.0
Common stock	484.7	484.7	484.7	891.2	1,087.9	1,087.9
Shareholders' equity	410.8	216.2	313.2	638.5	318.8	305.9
<b>Summary Other Data:</b>						
EBITDA <sup>(5)</sup>	(57.2)	15.8	102.1	171.4	275.6	249.0
EBITDA margin <sup>(6)</sup>	na	6.2%	28.5%	38.7%	35.6%	42.0%
Capital expenditures <sup>(7)</sup>	410.7	251.7	204.3	232.5	342.9	245.3
Number of Shares (thousands) <sup>(8)</sup>	484,663	484,663	484,663	891,168	1,087,897	1,087,897

(1) Data from Cableuropa's audited financial statements as of and for December 31, 2005 on an unconsolidated basis.

(2) Restricted cash is U.S. government securities and European government securities that were purchased and pledged to secure interest payments on the Notes through March 2003.

(3) Total debt is financial short-term debt and long-term debt. Total debt does not include participative loans. In 2003, total debt included the €98.5 million Grupo Corporativo ONO ("GCO") Loan. Total debt does not include accrued interest expenses.

(4) Participative loans represent subordinated loans from GCO to Cableuropa. For the purpose of capitalization calculations under the Spanish corporations' law, participative loans are treated as shareholder's equity.

(5) EBITDA represents earnings before interests, taxes, depreciation and amortization, extraordinary and other non-cash items and minority interests. EBITDA is not a GAAP measure in either Spain or in the United States and should not be considered in isolation or as a substitute for, or as an alternative to, net income, operating income, cash flow from operations, other cash flow data or any other performance measures prepared in accordance with Spanish GAAP or U.S. GAAP.

(6) EBITDA margin is calculated by dividing EBITDA for a particular period by the total revenues for that period. EBITDA margin is omitted when negative.

(7) Capital expenditures refer to purchase of intangible assets, such as computer software, broadcast rights, and property and equipment.

(8) €1.00 par value shares.

Reconciliation between EBITDA and net profit/(loss) is set forth below:

<i>Data in € million</i>	2003	2004	2005	
			Actual	Old ONO <sup>(1)</sup>
<b>Consolidated net profit/(loss)</b>	<b>97.0</b>	<b>(81.2)</b>	<b>(467.1)</b>	<b>(523.2)</b>
Less				
Loss attributed to minority interests	0.0	(2.2)	(0.2)	—
Income tax credits	53.0	(21.4)	(76.0)	(55.7)
Net extraordinary income/(expense)	298.2	61.2	417.6	480.6
Net financial expense	(130.2)	104.0	134.4	126.3
Amortization of goodwill	(13.4)	10.2	2.6	—
Depreciation and amortization	(106.7)	100.8	264.4	221.0
Total adjustments to reconcile net profit/(loss) EBITDA	5.1	252.5	742.8	772.2
<b>Total EBITDA</b>	<b>102.1</b>	<b>171.4</b>	<b>275.6</b>	<b>249.0</b>

<sup>(1)</sup> Data from Cableuropa's audited financial statements for the year ended December 31, 2005 on an unconsolidated basis.

#### Summary Operating Data (unaudited)

<i>Data in units</i>	2003	2004	2005		
			Actual	Old ONO <sup>(1)</sup>	Auna
Homes released to marketing	1,743,266	2,038,172	5,651,678	2,901,378	2,750,300
<b>Customers:</b>					
Cable	581,345	676,858	1,660,156	882,723	777,433
Other direct access			110,885	-	110,885
Residential direct access	581,345	676,858	1,771,041	882,723	888,318
Residential indirect access	-	-	375,707	-	375,707
Business	13,133	17,369	121,656	25,995	95,662
<b>Residential RGUs (Cable):</b>					
Telephony	544,271	622,275	1,446,013	770,107	675,906
Internet	199,066	271,489	825,810	441,792	384,018
Cable television	339,378	369,496	857,631	472,666	384,965
Total RGUs	1,082,715	1,263,260	3,129,454	1,684,565	1,444,889
Total RGUs/Customer	1.86	1.87	1.89	1.91	1.86
<b>Residential Cable ARPU (in €):</b>					
Residential customers	54.1	54.6	51.9	53.6	50.3
<b>Total Residential Penetration (Cable):</b>					
Customer	33.3%	33.2%	29.4%	30.8%	29.0%
Internet	11.4%	13.4%	14.6%	15.2%	15.2%
Telephony	31.2%	30.5%	25.6%	26.5%	26.5%
Cable television	19.4%	18.1%	15.2%	16.3%	16.3%
Churn	13.7%	16.1%	18.6%	16.6%	20.7%

<sup>(1)</sup> Old ONO operating data. Figures contributed by Auna are not included.

**B. [Reserved]**

**C. [Reserved]**

## **D. Risk Factors**

*In addition to other information contained in this Report, prospective investors should carefully consider the risks described below before making any investment decisions with respect to our company. Our business, our ability to pay the principal and interest on our present and future debt, and any decision by security holders are subject to a number of significant risks, including those described below. If any of the following risks actually occur, our business, financial condition or results of operations could suffer and investors could lose all or part of their investment. There may also be other risks of which we are currently unaware or that we do not currently believe are material that could harm our business, financial condition or results of operations. The risks described herein do not include all of the risks associated with our business. Additional risks not known to us at present or that we currently deem immaterial could also impair our business operations and our ability to meet our debt obligations.*

*This Report contains “forward looking” statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward looking statements. Factors that might cause such differences are discussed below and elsewhere in this Report. See “Item 5.G. Safe Harbor”.*

### **Risks Relating to our Financial Profile**

#### **We may not generate sufficient cash flow to fulfil our debt obligations**

Our ability to make payments on our debt or to refinance any such debt will depend on our ability to generate cash. Our ability to generate cash is dependent on many factors, including, among others:

- our future operating performance;
- the level of our capital expenditures;
- the demand and price levels for our products and services;
- general economic conditions and conditions affecting customer spending;
- competition;
- the integration and transformation of Auna;
- our ability to use our carry-forward tax losses; and
- legal, tax, litigation, regulatory and other factors affecting our business.

We have experienced negative cash flow since we commenced operations in 1998, and we do not expect to achieve positive cash flow at least before the end of 2008. We cannot assure you that our business will generate sufficient cash to fulfill our debt obligations or that future financing will be available to us on commercially reasonable terms or at all. To the extent our results of operations are less than anticipated or we are forced to make significant revisions to our current business plan, we may need to raise additional capital or refinance all or a portion of our debt on or before maturity in order to fund operations and to meet our debt service obligations. However, our ability to raise capital or refinance our debt depends on a number of factors, including the liquidity of the capital markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot raise additional capital or refinance our debt, we may be unable to meet our debt payment obligations.

#### **Our substantial debt service requirements could have a material adverse effect on our business, financial condition and results of operations.**

We are a leveraged company with significant debt service requirements. As of December 31, 2005, our third-party indebtedness is €2,721 million. In addition, as of December 31, 2005 we had an additional €1,179 million available to us to be drawn under the New Senior Facility. In order to finance the Deferred

Acquisition Payment (deferred payment of €214.4 million due in 2008 in relation to the Auna Acquisition), to fund future working capital, to continue to build-out our networks and to finance the Auna integration and transformation, we expect to incur additional indebtedness, principally from drawdowns under the New Senior Facility.

Furthermore, a substantial portion of our debt, including under the New Senior Facility, the Subordinated Facility, the note proceeds loan relating to the Floating Rate Notes due 2014 and the Participative Loan, bears interest at variable rates. If market interest rates increase, our variable rate debt will create higher debt service requirements, which would adversely affect our cash flow. Although we entered into a €500 million interest rate hedge in 2005 (€1,300 million covered by April 2006) under our New Senior Facility and the fact that we are required to enter into certain additional hedging or other agreements designed to limit our exposure to higher debt service requirements as a result of our variable-rate debt, there is no guarantee that we will be able to enter into such agreements on satisfactory terms or at all.

Our financial leverage could have important consequences, including:

- making it more difficult for us to satisfy our financial obligations, including those under the New Senior Facility, the Subordinated Facility, the Note Proceeds Loans, the Note guarantees and the Participative Loan;
- increasing the cost of, or impeding our ability to obtain, additional debt or equity financing to fund the negative cash flows we expect to incur in the near term;
- impeding our ability to compete with other providers of telephony, Internet, data and pay television services that are less leveraged than we are;
- restricting our ability to bid for, or be awarded, licences or new franchises, make strategic acquisitions, exploit business opportunities and react to significant changes in our business and in general economic conditions; and
- adversely affecting public perception of us and our brand.

**Subject to certain restrictions, we may be able to incur substantially more debt, which would increase the leverage-related risks described in this Report.**

Subject to the restrictions in the indenture governing the Notes and the guarantees, the Note Proceeds Loans, the New Senior Facility, the Subordinated Facility, the Participative Loan, the Indentures and other outstanding debt which are subject to a number of significant qualifications and exceptions, we may incur substantial additional debt in the future, some of which could also be secured. For example, subject to certain conditions, the Indentures allow us to grant liens on our property or assets to secure any debt ranking senior to the guarantees and certain other debt that, in each case, may be incurred under the "Limitation on Debt" covenants in the Indenture. To the extent new debt is added to our currently anticipated debt levels, the risks described in "—Our substantial debt service requirements could have a material adverse effect on our business, financial condition and results of operations" could become more significant.

**The New Senior Facility, the Subordinated Facility, the Participative Loan and the Indentures contain financial covenants that we could fail to meet.**

The New Senior Facility, the Subordinated Facility and the Participative Loan require us to satisfy specified financial tests and maintain specified financial ratios regarding maximum senior debt to consolidated annualized EBITDA, maximum total debt to consolidated annualized EBITDA, minimum EBITDA to total interest expense, debt service cover and maximum capital expenditures. In addition, the Indentures contain other financial covenants. See "Item 10 - C. Material Contracts"

Our ability to comply with these ratios and to meet these tests and comply with other covenants, including those contained in the Indentures, may be affected by events beyond our control and, as a result, we cannot assure you that we will continue to meet these tests. Our failure to comply with these obligations could lead to a default under the New Senior Facility, the Subordinated Facility or the Participative Loan unless we can obtain waivers or consents in respect of any breaches of these obligations under the New Senior Facility, the Subordinated Facility or the Participative Loan. We cannot assure you that these waivers or consents will be granted. In the event of any default under the New Senior Facility, Subordinated Facility

or the Participative Loan, the lenders under that facility will not be required to lend any additional amounts to us and could elect to declare all outstanding borrowings, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. In the event of a default, the relevant lenders could also require us to apply all available cash to repay the borrowings. In addition, the lenders under the New Senior Facility could prevent us from making debt service payments on the Note Proceeds Loans, which would be an event of default under the Notes. If the debt under the New Senior Facility, the Subordinated Facility, the Participative Loan or our other debt were to be accelerated, we cannot assure you that our assets would be sufficient to repay such debt in full.

**Restrictions imposed by our debt obligations limit our ability to take certain actions.**

The terms of the New Senior Facility, the Subordinated Facility, the Participative Loan and the Indentures contain a number of restrictive covenants and other provisions that limit our ability to operate our business. For example, some of these provisions limit our ability to, among other things:

- pay dividends or make other distributions;
- make certain investments or acquisitions;
- engage in certain transactions with affiliates and other related parties;
- merge or consolidate with other companies;
- engage in certain types of business;
- make capital expenditures;
- sell or dispose of assets other than in the ordinary course of business or assets that are a part of non-core businesses;
- incur additional debt; and
- create certain liens.

These covenants could adversely affect our ability to finance our future operations and capital needs, pursue acquisitions and other business activities that may be in our best interests. In addition to limiting our ability to operate our business, a failure to comply with these obligations could lead to a default under the terms of the relevant debt agreements which would prevent us from borrowing any additional amounts thereunder or the lender declaring all outstanding principal and interest becoming immediately due and payable. This would lead to a default under our other debt agreements and as a result much of our other debt could be accelerated. If this were to occur we can make no assurance that we would have sufficient funds to repay our debt.

**If we experience a change of control, we may not have enough funds to repay the Note Proceeds Loan.**

Under the terms of the Indentures, upon the occurrence of a change of control of Cableuropa or the sale of all or substantially all of our assets, both ONO Finance and ONO Finance II are required to offer the purchase of all outstanding Notes of their respective issues at a purchase price equal to 101% of the aggregate principal amount thereof, in addition to the accrued and unpaid interest, if any, up to the purchase date. The Indenture will have a corresponding covenant requiring repayment. However, we cannot assure you that in the event of a change of control, we would have sufficient funds to repay the Note Proceeds Loans. In addition, the New Senior Facility and other instruments governing our existing and future debt may prohibit us from repaying the Note Proceeds Loans prior to their stated maturity, including upon a change of control or a sale of all or substantially all of our assets. In the event of a change of control, our failure to repay the Note Proceeds Loans would result in an event of default under the Indentures which, in turn, would constitute an event of default under the New Senior Facility, the Subordinated Facility and the Participative Loan. In such circumstances, the subordination provisions in the Indentures would restrict any repayment under the Note Proceeds Loans (including payments under the guarantees) unless all of our senior debt has been paid in full.

**We have incurred substantial net losses to date and we may not be profitable in the future.**

On a consolidated basis we have incurred significant net losses. During 2005, we incurred net losses of €467 million. Therefore, we cannot be certain that we will achieve or sustain profitability in the future. As a result, we may not have sufficient funds to make payments on our substantial debt obligations, to meet the covenants under the New Senior Facility, the Subordinated Facility or the Participative Loan, or to fund our operations. Continued losses may therefore adversely affect our business and limit our ability to engage in financings in the future. For more information, see “Item 5 – Operating and Financial Review and Prospects“.

**Cableuropa and Auna prepare their financial statements in accordance with Spanish GAAP, which differs from U.S. GAAP, IFRS or other accounting legislation that may be applicable to us in the future and which could significantly affect our net equity.**

According to Spanish law and regulations, Cableuropa and Auna maintain their accounting records and prepare their financial statements in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP and International Financial Reporting Standards (IFRS). The European Union has begun to converge its Member States accounting policies and adopt IFRS. Although we are not currently affected by any rule that requires us to change our accounting standards, we may be affected by these rules in the future. To the extent that we are required to adopt IFRS, or choose to do so in the future, we would be required to change certain of our accounting policies. Such changes could significantly affect our net equity position and the presentation of our results of operations, and the perception of our financial condition in the financial community or the marketplace could be affected.

**Risks Relating to our Business**

**We may not generate sufficient cash flow to fund our operations or capital expenditures.**

The operation, expansion and upgrade of our network, as well as the costs of sales and marketing of our products and services require substantial financing. We also have major capital resource requirements relating to, among other things, the following:

- continuing to build-out our network within our franchise areas;
- developing and deploying new products and services;
- implementing new technologies;
- maintaining the quality of our network;
- consolidating our brand in the market;
- increasing the loyalty of our customer base; and
- integrating and transforming Auna's businesses.

Our ability to fund our ongoing operations will depend on our ability to generate cash. Our ability to generate cash is dependent on many factors. For a discussion of these factors see “—Risks Relating to our Financial Profile—We may not generate sufficient cash flow to fulfill our debt obligations.” In addition, our liquidity and capital resource requirements may increase if we expand into additional franchise areas or if we make any future acquisitions. We may not generate sufficient cash flow or have access to sufficient funding to meet these requirements. If we fail to meet these requirements, our operations could be significantly affected and future growth could be significantly curtailed.

**The difficulties of integrating and transforming Auna's businesses could impede our future growth and adversely affect the operation of our business.**

We recently completed the Auna Acquisition. As a result, we will be investing capital and the time and efforts of our management in order to integrate and transform Auna's businesses. Auna is substantially larger than other companies we have previously acquired and larger than we were at our peak. The integration of Auna may divert the attention of our senior management and present significant difficulties for us, which could have a negative impact on the operation of our business. In addition, our ability to

successfully integrate Auna will be made more difficult by the fact that some of Auna's former management have left the company and will not be involved in the integration process. Auna's margins are significantly lower than Old ONO's and unless we can improve Auna's financial performance, our combined margins will be lower than as previously reported by Old ONO.

In connection with the integration and transformation process, we are currently assessing the optimal organizational structure for the ONO Group following the Auna Acquisition. We have reached an agreement with the labor unions and the Government regarding headcounts reductions to eliminate duplicity functions, and up to 785 employees will be affected, during 2006 and 2007.

We expect to incur additional indebtedness in connection with the integration of Auna and the build-out of our networks. We are also exploring the possibility of disposing of or winding down Auna's indirect access business.

The integration of Auna, as well as the integration process for any potential future acquisitions, may expose us to certain risks, including the following:

- difficulty in integrating the acquired business in a cost-effective manner, including network infrastructure, management information and financial control systems, personnel, marketing, customer service and product offerings;
- unforeseen legal, regulatory, contractual, labor, tax or other issues arising from the acquisition;
- significant liabilities or contingencies arising from the acquisition, for which we are not indemnified or fully indemnified (for example, Auna has a contract with a service supplier that must be renegotiated or else penalty payments will be owed to the supplier);
- additional capital expenditure requirements;
- inability to retain customers following the acquisition;
- potential disruptions to our ongoing business caused by senior management's focus on the acquired companies;
- difficulty in maintaining uniform quality standards, controls, procedures and policies; and
- the impairment of relationships with employees as a result of changes in management and ownership.

When we integrate any potential future acquisitions, we cannot assure you that we will be successful in managing the foregoing or any other risks. Our failure to overcome these and other risks could have a material adverse effect on our business, financial condition and results of operations.

**The departure of some of the members of the senior management of Auna may adversely affect the efficiencies expected from the integration of Auna, and loss of additional executives and employees could weaken our business.**

During the Auna Acquisition process, the majority of Auna's former senior management left the company. Those executives have not been and will not be involved in the integration of Auna into our company, and we therefore will not be able to benefit from or rely on their expertise and experience in running Auna's operations and business going forward. These changes in Auna's management and structure may have adverse effects on the integration process and prevent us from achieving the efficiencies and synergies that are expected to result from the Auna Acquisition.

Furthermore, our operations are currently managed by a number of key executives and employees. The further loss of key employees could significantly impede our financial plans, product development, network completion, marketing and other plans and prevent us from complying with our financing arrangements. In addition, competition for qualified executives in the telecommunications industry is intense. Our growth and success in implementing our business plans will largely depend on our continued ability to attract and retain highly skilled employees. We cannot assure you that we will be successful in hiring and retaining qualified personnel. If any of our senior executives or other key personnel ceases their employment with us, our future operations could be harmed.

**We have only recently acquired Auna and we have included limited financial and other information about Auna in this Report.**

*Post-closing purchase price adjustments.* The purchase price related to the Auna Acquisition depends on various post-closing purchase price adjustments. Our estimates of such adjustments may vary from actual adjustments. In the audited Financial Statements, we have used the purchase price paid at the closing of the Auna Acquisition, which is still subject to potential post-closing purchase price adjustments. We allocated the purchase price to net assets acquired. During November, we carried out an assignment of the purchase price to the assets and liabilities of Auna Group. As a result, a Negative consolidation difference of approximately €263m has been placed on the Balance Sheet at December 31, 2005. See "Item 5 - Operating and Financial Review and Prospectus".

*Certain comparisons and adjustments with respect to operating data among Old ONO, Auna and ONO included in this Report may not be accurate.* Certain adjustments in some operating data have been included that is mostly derived from historical operating information of Old ONO and Auna, which differs significantly from each other in various aspects. This adjusted data consists of, among other things, subscriber numbers, business segments and network specifications.

**The Spanish residential and business telephony, broadband Internet and pay television markets are highly competitive and may become more competitive in the future, which could result in lower prices, the loss of current and potential subscribers, and reduced revenues and profitability.**

We face significant competition from established and new competitors that provide telephony, Internet, television and business services in Spain. In some instances, we compete against companies with fewer regulatory burdens, larger financial resources, more comprehensive products and services, greater personnel resources, wider geographical coverage, greater brand name recognition and more established relationships with regulatory authorities and customers.

*Residential Direct Access Services (Cable and ULL and Other Services)*

*Residential Telephony.* In the telephony market, our principal competitor is Telefónica. Telefónica is the former monopoly provider of most telecommunications services in Spain. Telefónica has, among other competitive advantages, significantly greater financial resources, brand recognition and market presence than we do. We also compete with other operators such as Wanadoo (a subsidiary of France Télécom) and Ya.com (a subsidiary of Deutsche Telecom) that provide their customers with direct access services unbundling Telefónica's local loop. Spain has yet to see a significant increase in Internet based telephony traffic in the residential market. We do, however, anticipate that this will represent a more material competitive threat in the future. In addition, we compete with three mobile telephony operators; Telefónica Móviles (a subsidiary of Telefónica), Vodafone and Amena (a subsidiary of France Télécom) that may threaten the competitive position of our networks, particularly if charges for calls on mobile networks continue to decrease.

*Residential Internet.* Telefónica is our principal competitor with respect to broadband Internet services. In addition to Telefónica, there are various providers of digital subscriber line ("DSL") broadband Internet services that offer broadband services using Telefónica's network on a bundled and unbundled basis, such as Wanadoo and Ya.com. In the future, we may also face increased competition from Internet offerings by mobile service providers.

*Television.* Our cable television services compete against Spain's free-to-air nationwide, regional and local channels. In addition, in the pay television market, we compete against Sogecable's satellite platform, Digital+. Digital+ has greater resources and market presence than we do, and has exclusive access to certain premium television content. As well as being our principal competitor in the pay television market, Sogecable is one of our programming providers and provides us with access to certain premium content programming. In addition to established competitors such as Sogecable, we may experience increased competition from other current or future competitors or from new technologies. For example, Telefónica launched "Imagenio," its commercial pay television service using DSL technology that includes VoD services. Other DSL operators are testing and launching Video over DSL services and digital terrestrial television operators are expected to play a more important role in the marketplace.

In addition, the cable television services market was liberalized in Spain in 2003, allowing new authorizations for providing cable television services in our franchise areas. However, no authorizations for

the provision of cable television services will be granted until the relevant regulation that will govern the provision of cable television services is enacted.

*Bundled Residential Services.* We also compete with the various competitors mentioned above, including Telefónica, which offer double- or triple-play bundled services that compete with our bundled service offering. Bundled service offerings are becoming increasingly competitive and important to attracting and retaining customers.

*Business Services, Large Customers Services and Wholesale Services*

Telefónica and its affiliates are our principal competitors in providing business telecommunications services, followed by BT and COLT, among others. We also compete with other operators including wireless local loop operators.

Competition from the companies identified above, as well as from new entrants and new technologies, including but not limited to Internet-based telephony, could create downward pressure on prices across all of our business lines, resulting in a decrease in our residential and business ARPUs, a loss of subscribers and a decrease in profitability. In addition, technological developments are increasing cross-competition in certain markets, such as that between mobile and fixed-line telephony. As a result of the foregoing, our success in the marketplace is affected by the actions of our competitors. In particular, our business may be affected if our competitors:

- offer lower prices, more attractive bundled services or higher quality services, features or content;
- more rapidly develop and deploy new or improved products and services; or
- more rapidly expand and enhance their networks.

To compete effectively, we need to successfully design and market our services, anticipate and respond to various competitive factors affecting all of our markets, such as the introduction of new products and services by our competitors, pricing strategies adopted by our competitors, changes in consumer preferences and general economic and social conditions. If we are unable to compete effectively with our competitors or to effectively anticipate or respond to consumer sentiment, we could lose existing and potential customers, which could result in reduced operating margins and results of operations that fall substantially short of our current expectations.

**If we fail to introduce new or enhanced products and services successfully, our revenues and margins could be lower than expected.**

Part of our business strategy is based on the introduction of new or enhanced products and services. Any of the new or enhanced products or services we introduce may fail to achieve market acceptance or products or services introduced by our competitors may be more appealing to customers. If our new product or service offerings are not successful, our subscribers may decide to discontinue using our services and choose other distribution platforms.

In addition, newly introduced products and services may not be profitable for a period after their introduction. The success of these products may be dependent not only on their quality and features but also on the maintenance and growth of the number of our subscribers and those products remaining widely used. We may not recover the investments we plan to make to launch new products and services.

**We are dependent on others to provide premium programming for our cable television service, including one of our main competitors.**

Our ability to compete in the multi-channel pay television market is, in part, dependent on our ability to obtain attractive programming at reasonable prices. However, a relatively small number of companies, including Sogecable, our main competitor in the pay television market, produce and control access to programming. If we are unable to purchase content at commercially reasonable prices or at all, our ability to retain and grow our customer base could be adversely affected.

Sogecable, through its satellite TV platform branded Digital+, controls a very significant portion of the Spanish pay television market. This significant market power may provide Sogecable with competitive advantages over our pay television operations, such as the ability to extend its range of preferential or

exclusive agreements with providers of content, exert increased pricing power with respect to suppliers and the ability to eventually benefit from cross marketing with Telefónica (a significant shareholder in Sogecable). As such, Sogecable may prevent us from accessing certain programming or force us to pay substantial amounts to access programming for our subscribers. For additional information regarding our access to content, see "Item 4 - Our Products and Services."

**Our business depends on equipment and service suppliers, which may fail to provide necessary equipment and services on a timely basis, discontinue their products or seek to charge us prices that are not competitive, any of which could adversely affect our business or profitability.**

We depend upon a small number of major suppliers, including Alcatel and Motorola, for essential products and services relating, among other things, to our network infrastructure. These suppliers may, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages or business requirements or otherwise. We are currently renegotiating our supply contract for set top boxes with Motorola, which has expired. We are continuing to purchase from Motorola under the same terms as the previous contract during these renegotiations.

In most cases, we have made substantial investments in the equipment or software of a particular supplier, making it difficult for us to rapidly change such relationships if a current supplier is unable or unwilling to offer us reasonable prices or ceases to produce equipment or provide the services we require.

If our suppliers are unable or unwilling to deliver products and services on a timely basis and at reasonable prices or their products are found to be faulty, our ability to provide products and services to our customers at competitive prices might be adversely affected, which could negatively impact our growth, financial condition and results of operations.

**We depend on Motorola's Mediacypher technology for the operation of our conditional access system and any discontinuation may adversely affect our business and profitability. Our conditional access system could also be compromised by illegal piracy.**

We operate a conditional access system for Old ONO which is used to transmit encrypted digital programs. In connection therewith, we entered into an agreement with Motorola under which Motorola agreed to sell and install parts of the conditional access system (including hardware equipment) to grant licenses for the respective intellectual property rights for the conditional access system, and to provide maintenance, support and security services. We use the Mediacypher conditional access system (including related hardware and set-top boxes) to transmit encrypted digital programs. Billing and revenue generation for those services rely on the proper functioning of the Mediacypher system. We especially depend on the software licensed to us. Auna has been using a different conditional access system and we are currently evaluating whether to continue to use their conditional access system in Auna franchise areas.

Our business operations and revenues could be adversely affected if (i) Motorola no longer licenses, supplies or maintains our conditional access system and if we are not able to replace the existing conditional access system with another comparable conditional access system; (ii) the Mediacypher conditional access system is compromised by illegal piracy and access of non-subscribers to the system; and/or (iii) the Mediacypher conditional access system is incompatible with future broadband cable technologies or products we intend to use.

**Unanticipated network interruptions and events beyond our control may adversely affect our ability to deliver our products and services.**

Our business is dependent on the continued and uninterrupted performance of our network. System, network, hardware and software failures have occurred before and could occur in the future and affect the quality of, or cause an unexpected interruption in, our service. These failures could result in costly repairs and affect customer satisfaction thereby reducing our customer base and revenues and damaging our brand image.

Moreover, if any part of our network is affected by flood, fire or other natural disaster, terrorism, power loss or other unforeseen events, our operations and customer relations could be materially adversely affected. Our disaster recovery, security and service continuity protection measures may not be sufficient to prevent loss of data or prolonged network downtime.

In addition, our business is dependent on certain sophisticated critical systems, including our switches, billing and customer service systems. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur to any of such locations or if those systems develop other problems, there could be a material adverse effect on our business.

**Our business may be adversely affected if we fail to carry out continuous maintenance and improvement of our network, systems and operations.**

We must continuously maintain and improve our networks in a timely and cost-effective manner in order to sustain and expand our customer base, service offerings and quality of service, enhance our operating and financial performance and satisfy regulatory requirements. The maintenance and improvement of our existing networks as well as our continued build-out depends on our ability to:

- enhance the functionality of our network in order to offer increasingly customized services to our customers;
- fill in coverage gaps and increase coverage in our franchises;
- upgrade our existing network and systems with new technology;
- expand the capacity of our networks to cope with increased bandwidth usage;
- expand and maintain customer service, network management and administrative systems;
- modify network infrastructure for new products and services; and
- finance our maintenance costs and network upgrades.

If we fail to maintain and improve our network, our services may be less attractive to existing and potential customers and we may lose customers to competitors who are able to provide higher quality services than we are. This could impact our financial condition and make it more difficult for us to fund our operations and meet our substantial debt obligations.

We require information technology enhancements in order to continue providing a high quality customer service. In addition, the integration of Auna will necessitate the usage of various resources in order to effectively harmonise the IT and billing systems of Old ONO and Auna. This could impact our financial conditions and make it more difficult for us to fund our operations and meet our substantial debt obligations.

**A material increase in customer churn, or the threat of customer churn, may adversely affect our business.**

Customer churn is a measure of customers who stop subscribing to our services. Churn arises mainly as a result of competition, relocation of subscribers and price increases. In addition, our customer churn rate may also increase if we are unable to deliver satisfactorily services over our network. For example, any interruption of our services, removal or unavailability of programming which may not be under our control or other customer service problems could contribute to customer churn. Any increase in customer churn may lead to increased costs and reduced revenues.

**Telefónica, the incumbent telecommunications operator, has the ability to set standards and precedents in this market which may adversely affect our business.**

Telefónica, the incumbent telecommunications operator in the Spanish market, has the ability to set standards and precedents in this market which may adversely affect our business. In addition to its dominance in the Spanish fixed telephony and Internet markets, Telefónica exerts significant market power in the Spanish pay television market through its shareholders in Sogecable. Telefónica's relationship with existing and potential customers and suppliers may impact our ability to negotiate contracts with them on terms commercially favorable to us or at all. Suppliers may insist on terms and conditions secured in negotiations with Telefónica that are favourable to the supplier and Telefónica but detrimental to us. In addition, Telefónica may use its substantial capital resources and dominant market presence to reduce prices charged to customers or to bid up the cost of acquisition content, purchasing services or hiring staff in order to meet its particular objectives. There can be no assurance that their actions will not adversely affect us.

**The telecommunications industry is subject to rapid technological changes and such changes could have a material adverse effect on our ability to provide competitive services.**

The telecommunications industry is characterized by rapid technological changes and the introduction of new products and services, including developments in technologies such as voice over the Internet protocol (or VoIP). Our future success depends on our ability to anticipate and adapt in a timely manner to such changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop, potentially reducing the prices for our services and rendering the products and services we offer and the technologies we use obsolete. This may require us to invest in new technologies in order to compete effectively with our competitors. However, there is no guarantee that we will be able to fund the capital expenditures for such technological developments through operating cash flow. If our cash flows from operations are insufficient, we would have to seek additional financing to fund our capital expenditures. Given our current substantial debt and the restrictions on our ability to raise additional capital, we may not be able to obtain the funding or other resources required to adopt and deploy such new technology in a timely manner.

There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. This failure could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our financial condition and results of operations. Conversely, we may overestimate the demands of the marketplace with regard to certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenue growth, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology.

**We operate in a highly regulated market that could require us to make additional expenditures or limit our revenues.**

We operate in a highly regulated market subject to the supervision of various regulatory bodies, including local, national and European Union authorities. Changes in these regulations may increase our administrative and operational expenses or limit our revenues. We are subject to, among other things:

- rules governing the interconnection between different networks and the interconnection rates that we can charge and that we pay for fixed and mobile line connections;
- requirements that, under specified circumstances, a cable system carry certain broadcast television channels ("must-carry" requirements);
- rules for authorization renewals and transfers;
- regulations relating to subscriber privacy and data protection;
- regulations on intelligent network services;
- taxes imposed on our public rights of way and revenues;
- other requirements covering a variety of operational areas such as land use and environmental protection, technical standards and subscriber service requirements;
- market power regulations and other restrictions relating to competition;
- regulations on cable television; and
- other regulations.

One of our regulators, the Telecommunications Market Commission (Comisión del Mercado de Telecomunicaciones, "CMT"), is required under current regulations to define the retail and wholesale markets in Spain that are not competitive as well as determining which operators have significant market power in such markets. If the CMT were to determine that we have significant market power in a particular market, we would become subject to additional regulatory restrictions, including interconnection and access obligations. For more information, see "Item 4 – Regulatory Environment".

Changes in applicable law, regulations, governing policy, or the interpretation and application of existing laws or regulations could adversely affect our business, financial condition and ability to introduce new products and services. Our business could be materially adversely affected by any changes in relevant laws or regulations or their interpretation regarding, for example, authorization requirements, access and price regulation, interconnection arrangements, the imposition of universal service obligations or any change in policy allowing more favorable conditions for our competitors. Our ability to introduce new products and services may also be affected if we cannot predict how existing or future laws, regulations or policies would apply to such products or services.

Many of our suppliers, particularly content providers and suppliers of equipment and services, are also subject to extensive regulation, which could adversely impact their ability to satisfy their obligations to us and thereby indirectly expose us to additional risk.

**Any acquisitions we may make in the future could increase our level of indebtedness, change our capital structure and adversely affect our business if we cannot effectively integrate these new operations and expose us to unexpected costs or other liabilities.**

Any acquisition we may undertake in the future could result in the incurrence of additional debt and contingent liabilities, increase in our interest expense and amortization expenses related to goodwill and other intangible assets, and our use of available cash on hand to finance such acquisitions. In addition, any additional indebtedness incurred to fund acquisitions or the use of available cash on hand to finance acquisitions may reduce the amount of our cash flow available to make payments on the Notes and, depending on the structure and terms of any acquisition, may be structurally or effectively senior to the Notes.

**The interests of our principal shareholders may be inconsistent with the interests of the holders of the existing Notes.**

A number of private equity investment funds, financial institutions and corporations currently own the equity of our parent company, GCO. See "Item 7 - Shareholders and Related Parties Transactions". The interests of our shareholders could conflict with bondholders' interests, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our shareholders could also have an interest in pursuing acquisitions, divestitures, financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a holder of Notes. In addition, one or more of our shareholders may come to own businesses that directly compete with ours. Moreover, the large number of our shareholders and possible conflicts in their interests may create difficulties in reaching a consensus on important decisions concerning our company. This may adversely affect our business by preventing us from reacting swiftly to new opportunities and by impeding an efficient decision-making process concerning the management of our company

### **Risks Relating to the Notes**

**The subsidiary guarantees are subordinated to all of our existing and future senior debt and following the occurrence of a Repayment Event will be subject to limitations on the ability of Note holders to enforce their rights under the subsidiary guarantees.**

The Notes are unsecured senior obligations of ONO Finance I and II and are guaranteed, jointly and severally, on a senior subordinated basis by the Guarantors. Our lenders could also require us to apply all available cash to repay borrowings under the facilities or prevent us from making debt service payments on the Note Proceeds Loans, either of which would be an event of default under the Notes. Under any of these circumstances we cannot assure you that our assets would be sufficient to repay such debt in full.

Payment of all obligations under the Note Proceeds Loans and the subsidiary guarantees will be subordinated in right of payment to the payment, of all existing and future senior debt of the subsidiary guarantors when it is due. The Note Proceeds Loans and the subsidiary guarantees will also be effectively subordinated to any secured debt of the subsidiary guarantors, to the extent of the value of the assets securing such debt. In addition, the ability to take enforcement action against Cableuropa or any of the other guarantors under the guarantees is subject to significant restrictions imposed by the Note Proceeds Loans, the Intercreditor Agreement and the terms of the guarantees. As a result:

Prior to a Repayment Event:

- if we are declared bankrupt or insolvent, the subsidiary guarantors are required to pay the holders of their senior debt in full before they can make any payment on the guarantees or pay ONO Finance II any amounts under the Note Proceeds Loans;
- all payments on the subsidiary guarantee of a subsidiary guarantor will be permanently blocked following a payment default under any senior debt and will be blocked for 179 days following certain non-payment defaults with respect to Designated Senior Debt; and

Upon and after a Repayment Event:

- the subsidiary guarantees will not be due and payable unless: (i) an event of default arising out of the failure to pay any amount under the Notes occurs and is continuing and (ii) either (A) 179 days has elapsed since the date of the default or (B), if earlier, (1) certain insolvency or reorganization events have occurred in relation to the relevant subsidiary guarantor (subject to certain legal restrictions), and (2) the lenders under any Designated Senior Debt have taken certain steps to enforce their rights under the Designated Senior Debt;
- all payments on the subsidiary guarantee of a subsidiary guarantor will be permanently blocked following a payment default under any Designated Senior Debt, and will be blocked for 179 days following certain non-payment defaults with respect to Designated Senior Debt; and
- the subsidiary guarantees will be automatically and unconditionally released in the event that all of the capital stock of the relevant subsidiary guarantor or all or substantially all of its assets are sold pursuant to an enforcement by the senior lenders under the New Senior Facility.

The Trustee will accede to an Intercreditor Agreement (without the consent of the holders) within 30 days of the occurrence of a Repayment Event (or upon the accession of the Trustee for the Notes, if earlier) to give effect to these subordination provisions. In addition, while not required to do so, it is expected that the Trustee for the Notes will accede to the Intercreditor Agreement upon the occurrence of a Repayment Event. In the event the Trustee for the Notes does not so accede, there will be a step-up in interest rates for borrowings outstanding under the New Senior Facility.

As a result of the foregoing, in the event of a bankruptcy, reorganization, insolvency or other proceedings relating to a subsidiary guarantor, holders of senior debt and other creditors (including trade creditors) of such guarantor may recover more ratably than the holders of the Notes.

The guarantees of the subsidiary guarantors are also subject to release under certain circumstances, including, upon and after a Repayment Event, concurrently with the sale by way of enforcement by the senior creditors of share capital of such subsidiary guarantor or any parent company of such subsidiary guarantor, or the sale of substantially all of the assets of such subsidiary guarantor.

**As a consequence of the 8% Notes due 2014 issued in 2006 by ONO Finance II, a company incorporated under the laws of Ireland, examinership laws in the Republic of Ireland may affect bondholders' ability to enforce the terms of the Notes and the guarantees of the Notes.**

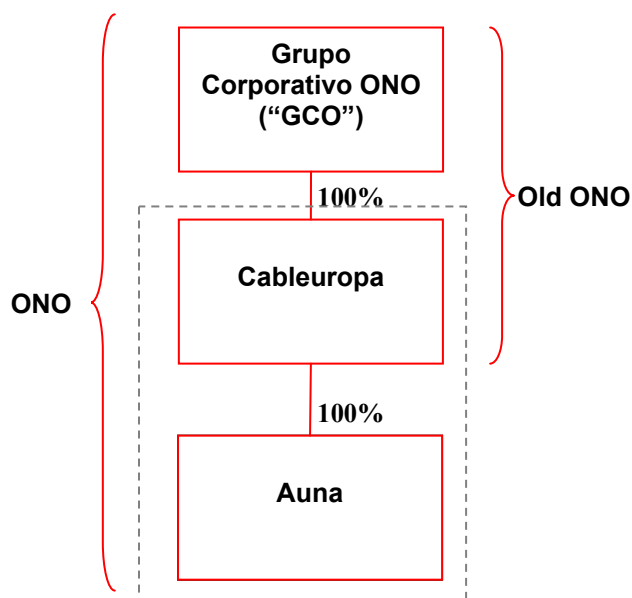
Ireland has a court protection procedure, known as "examinership," to facilitate the survival of companies in financial difficulties. The procedure, which is similar to the Chapter 11 procedure in the U.S., provides ailing companies with a period of protection from their creditors, both secured and unsecured, to facilitate a restructuring of the company. If a company is unable or likely to be unable to pay its debts, an examiner may be appointed to facilitate the survival of the company and the whole or any part of its business. If an examiner has been appointed to a particular company, the examinership may be extended to related companies which includes holding companies, subsidiaries and affiliates even if those companies are able to pay their debts. During examinership, the rights of creditors are suspended so that no enforcement action or other legal proceedings can be commenced without the approval of the examiner or the relevant Irish court, as the case may be. In the event that a scheme of arrangement is approved by the courts in the context of an examinership procedure, creditors' claims may be reduced or otherwise compromised as part of the scheme. Furthermore, the subject company cannot make any payment by way of satisfaction or discharge of the whole or a part of any liability incurred by it before the presentation of a petition except in certain strictly defined circumstances.

Subject to certain limitations, an examiner is given power, to take whatever steps are necessary to prevent or rectify the effects of any act, omission, course of conduct decision or contract in relation to a company which, in the examiner's opinion, is or is likely to be to the detriment of that company or any interested party. For example, an examiner may repudiate a covenant restricting further borrowing and/or the creation of security where he is of the opinion that the enforcement of the negative pledge would be likely to prejudice the survival of the company as a whole or any part of its undertaking as a going concern. If ONO Finance II is placed in examinership, you may be unable to enforce your rights under the Notes and it may be unable to make payments on the Notes.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

The chart below sets forth our organizational structure as of December 31, 2005 (including our sole shareholder, Grupo Corporativo ONO):



**Cableuropa** was incorporated on June 2, 1992, pursuant to the Spanish Corporations Act for an indefinite period of time. Our principal office is located at Calle Basauri 7-9, Urbanización la Florida, 28023 Aravaca, Madrid, Spain, and our telephone number is +34 91 180 9300. Cableuropa and its subsidiaries are wholly owned by GCO. The ONO Group launched its brand name and commercial services in 1998.

**Our corporate reorganization.** Prior to November 1999, Cableuropa owned between 28% and 89% of its Spanish cable and telecommunications subsidiaries. The remaining interests were held by Spanish Telecommunications Limited S.á.r.l. (“Spaincom”) and various other minority shareholders comprised principally of regional financial institutions, regional media groups and local businesses. Between 1999 and 2001, most of the minority shareholders, as well as Spaincom, exchanged their interest in the relevant subsidiaries for ordinary shares of Cableuropa.

In January 2002, Cableuropa’s shareholders contributed all of the outstanding shares of Cableuropa to GCO in exchange for 100% of GCO shares and GCO became the sole direct shareholder of Cableuropa.

In 2004, GCO, our corporate parent, acquired 100% of Retecal. Retecal has the cable telecommunications franchise for the region of Castilla y León (north-west of Spain).

In March 2005, Cableuropa performed a capital increase of 196,728,848 shares that was fully subscribed by GCO in exchange for the contribution of 100% of the capital stock of Retecal, following which Cableuropa became the sole shareholder of Retecal. In March 2005 Cableuropa delivered the vertical merger projects for Mediterranea Norte, Mediterranea Sur, Valencia and Retecal, all wholly-owned subsidiaries of Cableuropa, to the Mercantile Register.

Subsequently, between 2001 and 2005, all of our operating subsidiaries were merged into Cableuropa and Cableuropa acquired all of their assets and liabilities. As these were vertical mergers, there were no capital increases in the acquiring company.

As of December 31, 2005, we had other non-operating subsidiaries that are in the process of being sold or liquidated. For more information regarding these subsidiaries, see “Item 18 – Financial Statements, Note 1”.

**Castilla-La Mancha cable franchise.** In 2003, we extended our geographical reach after Cableuropa was awarded the Castilla-La Mancha cable franchise. The addition of the Castilla-La Mancha franchise area increased our total potential market to 5.6 million homes, representing approximately 27% of the homes in Spain.

**Acquisition of Factoría de Canales.** On February 24, 2005, GCO acquired 49% of the shares of Factoría de Canales, a television content aggregator. On December 14, 2005, Cableuropa acquired the remaining 51%. This company was incorporated on January 28, 2005 with the contribution of the channel aggregation, management and commercialization businesses of Mediapark. Factoría de Canales currently produces eight television channels for ONO. We believe that this acquisition will enable us to improve the quality of the content that we offer to our television customers, whilst at the same time providing us with an additional source of revenues through the sale of this content to other pay television platforms in Spain.

**Auna Acquisition.** On July 29, 2005, GCO entered into a definitive agreement with Auna Operadores de Telecomunicaciones, S.A. as vendor for the acquisition of 100% of Auna. GCO subsequently assigned its rights under the agreement to Cableuropa, thus completing the Auna Acquisition for Cableuropa on November 4, 2005.

The Auna Acquisition substantially completed the consolidation of the Spanish cable industry and transformed us into the leading cable operator in Spain. We expect that the implementation of our management practices at Auna combined with our prior experience in integrating Retecal, acquired in 2004, can result in a significant improvement in Auna's EBITDA margin, which has historically been much lower than that of Old ONO's.

The predecessor of the Auna Group, Retevisión, was formed in 1989 as a result of the spin-off of RTVE's (the Spanish public free-to-air broadcast television network) technical network to manage signal transmission and broadcasting network throughout Spain. Auna was incorporated on February 9, 2000. On June 21, 2002, Auna Operadores de Telecomunicaciones, S.A., the sole shareholder of Auna at that date, approved a corporate restructuring of the Auna Group whereby the wireline and cable telecommunications business would be managed and operated through a single company, Auna. As part of this restructuring process, the Auna brand was launched in 2003.

## **B. Recent Developments**

### **a ) Key Terms of the Auna Acquisition**

On July 29, 2005, we entered into a definitive agreement for the acquisition of Auna Telecomunicaciones, S.A.U., a provider of integrated telephony, broadband Internet, cable television, business and wholesale telecommunications services in Spain. The Auna Acquisition was approved with no conditions by the Spanish competition authorities on October 10, 2005 and closed on November 4, 2005. The cash consideration for the Auna Acquisition was €2,251.2 million (which included €200 million of acquired debt), of which the payment of €214.4 million is payable on January 15, 2008 (the “Deferred Acquisition Payment”). The Auna Acquisition was funded by a combination of senior debt, subordinated debt and €1,000 million of new cash equity injected into GCO.

The Auna Acquisition Agreement relates to (i) the purchase of the shares of Auna and of credit rights arising from the obligations of Auna and certain of its subsidiaries under three commercial credit agreements and a participative loan for a purchase price of €2,051.2 million (including the Deferred Acquisition Payment) and (ii) the assumption of €200 million of existing debt of Auna.

Pursuant to the terms of the Auna Acquisition Agreement, the price paid as cash consideration was subject to post-closing adjustments based on certain calculations with respect to net debt and working capital. As a result, an audited consolidated balance sheet of the Auna Group as of October 31, 2005 was prepared for the sole purpose of calculating the relevant price adjustments. Interest, based on EURIBOR, was calculated and added to the purchase price adjustments, as if such interest had accrued from

November 4, 2005 (the closing date of the Auna Acquisition) until the date in which the relevant amounts are paid.

The representations and warranties contained in the Auna Acquisition Agreement are standard for such an agreement.

With respect to indemnification provisions, the Auna Acquisition Agreement provides that following the closing of the Auna Acquisition, certain of the former shareholders of Auna Operadores de Telecomunicaciones, S.A., including affiliates of SCH, Endesa and Unión Fenosa (collectively, the "Auna Indemnifying Shareholders"), have become jointly liable (except for Auna Indemnifying Shareholders that belong to the Santander group, which are jointly and severally liable) to indemnify us with respect to any claims relating to (i) a breach of representations and warranties, (ii) the failure to comply with certain undertakings contained in the Auna Acquisition Agreement, and (iii) the failure to make the relevant payments as a result of any purchase price adjustments. Any obligation to indemnify us will only be binding on the Auna Indemnifying Shareholders once a court decision or arbitral award has been rendered confirming the existence and specifying the amount of the damage, or an agreement is reached in this regard. The obligation to indemnify Cableuropa will only be applicable in the event that the aggregate amount of claims exceeds €10 million, and Cableuropa may not make any claim against the Auna Indemnifying Shareholders under the Auna Acquisition Agreement for an amount lower than €50,000 on an individual basis. The maximum amount of any indemnification provided by the Auna Indemnifying Shareholders is limited to € 250 million in aggregate.

The deadline for making any claim for indemnification against the Auna Indemnifying Shareholders is May 4, 2007, or in the case of claims in respect of breach of representations and warranties regarding tax and social security matters, or in respect of the ownership, liens or encumbrances regarding the shares of Auna or the commercial credit agreements and participative loans in which Cableuropa is subrogated by virtue of the Auna Acquisition Agreement, within the relevant statutory period. The final amount for any indemnification is currently under discussion.

A summary of the results of operations and financial condition of Auna Group, which has been derived from its audited consolidated financial statements, is set forth below:

<i>Data in € million</i>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Summary Statement of Operations Data:</b>			
<b>Revenues</b>	<b>1,049.0</b>	<b>1,160.4</b>	<b>1,138.4</b>
<b>Expenses:</b>			
Operating expenses	(952.0)	(1,022.0)	(977.9)
Costs capitalized	27.0	21.6	26.2
Depreciation and amortization	(369.3)	(382.2)	(403.2)
<b>Total operating expenses</b>	<b>1,294.3</b>	<b>1,382.6</b>	<b>1,354.9</b>
<b>Operating loss</b>	<b>(245.3)</b>	<b>(222.2)</b>	<b>(216.5)</b>
<b>Summary Balance Sheet Data:</b>			
Cash	2.2	2.6	0.3
Tangible assets, net	2,629.6	2,833.3	2,405.3
Total assets	3,868.8	3,803.9	3,559.6
Total debt <sup>(1)</sup>	1,278.5	1,050.8	1,183.1
Common stock	251.7	262.9	262.9
Shareholders' net equity	447.2	311.9	(163.0)

<sup>(1)</sup> Total debt includes short and long term debt with credit entities and payable to associated and related companies.

**b) 14% Notes due 2010 redemption**

On July 15, 2005, we redeemed €43.9 million aggregate outstanding principal amount of our 14% Notes due 2010 ("2010 Notes"), issued by ONO Finance Plc at a redemption price of €1,070 per €1,000 principal amount so redeemed, plus accrued and unpaid interest. On August 30, 2005, we redeemed the remaining outstanding principal amount of 2010 Notes, also at a redemption price of €1,070 per €1,000 principal amount so redeemed, plus accrued interest.

**c) 14% Notes due 2011 redemption**

ONO Finance Plc issued an irrevocable notice of redemption with respect to all outstanding 14% Notes due 2011 ("2011 Notes") on December 22, 2005 calling for the 2011 Notes to be redeemed. On February 15, 2006, ONO Finance Plc redeemed all of the outstanding 2011 Notes issued in February 2001 (which consisted of €8,038,000 and \$58,920,000). The 2011 Notes were cancelled at their first call date with a premium of 7%. The redemption was financed through the New Senior Facility.

**d) 8% Notes due 2014 issued by ONO Finance II Plc**

On February 7, 2006, ONO Finance II Plc completed an additional offering of €270 million 8% Senior subordinated Notes due 2014. ONO Finance II was incorporated as a public limited company with limited liability under the laws of the Republic of Ireland on January 19, 2006. Beginning on May 2006, interest will be paid on May 15 and November 15 of each year payable in arrears. Prior to May 15, 2009, ONO Finance II may redeem all or part of the Notes at a redemption price of 100% of principal plus accrued and unpaid interest and the applicable "make whole" premium. Prior to May 15, 2009, ONO Finance II may redeem up to 35% of the Notes with the proceeds of certain public equity offerings.

The ONO Group has entered into a Note Proceeds Loan with ONO Finance II, pursuant to which the gross proceeds of the Notes have been lent to Cableuropa.

The proceeds of the 8% Notes due 2014 issue were used to repay in full the €270 million Bridge Loan incurred by Cableuropa as part of the Auna Acquisition.

**e) Credit ratings upgrade**

After the Auna Acquisition the rating agencies upgraded ONO's credit rating. Our credit ratings at the date of this Report are:

	<b>Date</b>	<b>Corporate</b>	<b>Bond debt</b>	<b>Bank debt</b>	<b>Outlook</b>
Moody's	Dec 20 2005	B1	B3	B1	Stable
Fitch	Dec 20, 2005	B	B -	BB -	Positive
Standard & Poor's	Nov 29, 2005	B	CCC+	Not rated	Positive

**f) Labor force reduction plan.**

We are currently assessing our optimal organizational structure following the Auna Acquisition. A labor force reduction plan was initiated in 2006 to reduce duplicated functions that have arisen following the Auna Acquisition and to introduce a greater degree of efficiency in the Auna business. We have recently agreed the terms of this labour force reduction with the relevant unions and we have received the required governmental approval for a reduction of up to 785 employees. Redundancies under this plan will be effective from May 2006 to October 2007 (18 months period from the governmental approval).

## C. Business Overview

ONO is the leading alternative provider of telecommunications, broadband Internet and pay television services in Spain. Through its own state of the art network, ONO offers a combination of telephony services, broadband Internet and analog and digital cable television services. ONO is the only cable operator with national coverage, and offers its services, marketed under the ONO brand, to approximately 1.8 million residential direct access and 122,000 business customers as of December 31, 2005. As of December 31, 2005, our network gave us direct access to 5.6 million in franchises that cover 84% of homes, or 17.6 million homes, and 84% of businesses in Spain. We are the principal competitor to the incumbent telecommunications and pay television operators in Spain. On an annualized pro forma basis for the quarter ended December 31, 2005, we would have generated revenues of €1,726 million and EBITDA of €458 million.

Our service offerings are comprised of telephony, broadband Internet and cable television services to residential customers as well as voice and data telecommunications services to business customers and to the wholesale and operators market.

- *Residential Direct Access Services.* As of December 31, 2005 we offer our services to approximately 1.8 million residential direct access customers, which represents 31% rate of penetration over our addressable market.

Our residential cable services customers are approximately 1.7 million and represent 94.4% of our residential customers.

*Residential Telephony.* We provide local, national and international telephony services to 1.4 million customers, representing 25.6% penetration in our franchise areas as of December 31, 2005.

*Residential Internet.* We are a leading provider of residential broadband Internet services in our franchise areas. Our Internet customer base grew by approximately 204.2% in 2005, resulting in 0.8 million Internet customers and representing 14.6% penetration as of December 31, 2005.

*Residential Television.* We are a leading provider of pay television services in Spain with 0.9 million customers, representing 15.2% penetration as of December 31, 2005. We offer a wide selection of digital and analog cable television programming from basic to premium packages. Each of our programming packages also provides easy access to our pay-per-view services. In December 2005, VoD was launched under the “ojo” brand in Old ONO franchises to increase the quality of our digital products offering.

*Other Residential Direct Access.* We offered services through full or partial unbundling of Telefonica’s local loop, power line communications, etc. As of December 31, 2005, 110,885 customers have subscribed to these services.

- *Business and other Services.* We provide voice and data telecommunication services to small and medium sized enterprises. As of December 31, 2005, we had 121,657 business customers. The number of our business customers increased substantially during 2005, mainly as a result of the acquisition of Auna.
- *Wholesale and operators services.* Historically, wholesale services did not represent a significant part of Old ONO’s revenues and, accordingly, were not reported separately from our business services division. In the case of Auna, wholesale services represent an important revenue stream and comprise a separate division, with Auna benefiting from a nationwide radio network to supply services to large and wholesale customers.

The following table sets forth ONO's revenues for the year 2005:

Data in € million	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
Residential revenues	329.3	404.5	632.7	533.8	22.8%	56.4%
Business revenues & others	29.3	38.9	141.2	58.6	32.8%	263.0%
<b>Total revenues</b>	<b>358.6</b>	<b>443.4</b>	<b>773.9</b>	<b>592.4</b>	<b>23.6%</b>	<b>74.5%</b>

<sup>(1)</sup> Data from Cableuropa's audited financial statements as of December 31, 2005 on an unconsolidated basis.

Data in units	2003	2004	2005		% change	
			Actual	Old ONO	Auna	04/05
Cable	581,345	676,858	1,660,156	882,723	777,433	145.3%
Other direct access	-	-	110,885	-	110,885	
<b>Residential direct access customers</b>	<b>581,345</b>	<b>676,858</b>	<b>1,771,041</b>	<b>882,723</b>	<b>888,318</b>	<b>161.7%</b>
<b>Residential indirect access customers</b>	-	-	<b>375,707</b>	-	<b>375,707</b>	
Direct access customers	13,133	17,369	77,084	25,995	51,089	nd
Indirect access customers	-	-	44,573	-	44,573	
<b>Business customers</b>	<b>13,133</b>	<b>17,369</b>	<b>121,657</b>	<b>25,995</b>	<b>95,662</b>	<b>nd</b>

## Our Key Strengths

- Significant scale of operations.* We are the leading alternative provider of wireline telecommunications, broadband Internet and pay television services in Spain other than Telefonica's. Our state-of-the-art network is the only network covering almost the whole of Spain, reaching 95.4% of Spanish population, including the eight largest cities in Spain: Madrid, Barcelona, Valencia, Sevilla, Zaragoza, Málaga, Murcia and Las Palmas de Gran Canaria. We had approximately 1.8 million direct access cable residential subscribers as of December 31, 2005. We believe that our significant scale of operations enables us to leverage our fixed cost base through stronger purchasing and advertising power, improved access to content, lower interconnection costs and higher brand recognition.
- Our own technologically advanced and reliable broadband network.* Our hybrid fiber coaxial network provides a high-speed, high-capacity, two-way communications pathway with direct access to our customers. By owning our own network, we believe we can offer higher quality and more reliable services and roll out new products more quickly. Being an infrastructure-based provider also allows us to offer multiple services and to deliver new broadband services, such as interactive digital television services and VoD.
- Attractive Spanish market.* Spain's economy offers an attractive business environment, characterized by one of the fastest growing GDP's in Western Europe. Furthermore, we believe that Spain's telecommunications market presents ample potential for growth. As of December 2004, 31% of homes in Spain had an Internet connection compared to the European average of 51%. In addition, Spain is characterized by attractive demographics for providing services over cable networks, such as a high population density with people primarily living in owner-occupied multi-dwelling units. We believe that an attractive economic environment, combined with our strong market presence and high quality network, provides a solid platform for future growth and profitability.
- Superior bundled service offering.* We provide subscribers a variety of bundled service offerings in order to maximize revenues from each of our customers. Our bundled services comprise a combination of our attractive cable television offering of up to 150 channels, broadband Internet services of up to 4 Mbps and telephony services, offering our customers the convenience of having a single provider for their communication, entertainment and information needs at a discount of the pricing for individual services. We believe that the combination of quality of service, Internet access speed, number of channels, recently launched VoD offers and competitive pricing represents a superior offering to others

available in the Spanish marketplace today. We believe our bundled offering results in increased penetration and higher customer loyalty, thereby reducing churn.

- *Strong track record of subscriber growth, increasing penetration and customer satisfaction.* As a customer-focused organization with an effective marketing strategy, Old ONO achieved rapid growth of customers and penetration. Between 2000 and December 2005, we grew our residential direct access customer base from 171,290 to 1,771,041 in Old ONO and Auna franchises. As of December 31, 2005, Old ONO's overall residential customer penetration rate equaled 30.8%. Old ONO continues to increase penetration rates in cities where build-out is substantially complete. This is highlighted by the fact that their penetration rate has risen to over 44% in franchise areas such as Albacete and Cádiz, where we have marketed our services for more than six years. Old ONO has also achieved high levels of customer satisfaction. According to a recent survey by a well known Spanish consumer organization, 80% of our telephony customers indicated that they would recommend our services to a friend.
- *Focus on managing costs.* Our focus and ability to control costs is an important element of both our operating and financial performance. Old ONO's selling, general and administrative expenses have increased only by 1.4% between 2000 (€203.6 million) and 2005 despite almost doubling RGUs during that period. We expect that our cost saving measures, which include, among other things, streamlining our business processes and renegotiating supplier contracts, will help improve Auna's EBITDA margin. Furthermore, we believe that the level of capital expenditure necessary to make our networks accessible to each additional home passed in Spain is significantly lower than that of many comparable European cable companies at a similar stage of development. This is primarily due to the high urban population density in Spain, our ability to build portions of our network above ground and our ability to efficiently obtain local access and rights of way permits from local authorities. We expect to extend our network in Auna's franchises using Old ONO's construction model from the second half of 2006 onwards.
- *Shareholder support and highly-skilled management team.* We have a demonstrated track record of accessing equity capital. Since we commenced operations in 1998, our shareholders have collectively contributed to the business approximately €4.1 billion to the ONO Group, including approximately €1.0 billion in capital to help finance the Auna Acquisition. Our shareholders also contribute Spanish and international market understanding as well as important relationships with regulators, governmental authorities, suppliers and customers. Our management team has extensive experience in managing telecommunications and media businesses in Spain, other countries in Europe, and the United States. In addition, our management has a proven track record of growing our business while at the same time making us more cost efficient and integrating other businesses.

## **Our Strategy**

Our strategy is to maintain and enhance our position as a leading provider of integrated telephony, broadband Internet and cable television services in Spain and improve our financial profile. In order to achieve these objectives, we focus on:

- **Increasing cash flow generation** .We intend to increase cash flow through the following strategies:
  - *Continuing to increase customers and penetration.* We believe that there is significant customer growth potential within both our existing base of homes released to marketing and in our deployed ULL network. Our main strategy is to increase penetration in our franchise areas by offering bundled services at competitive prices to attract new customers. As a result of the integration of Auna, we believe that our enlarged size will enable us to attract new customers with a wider range of product offerings and inducements. We expect this enhanced product portfolio will help us increase ONO's penetration rates beyond the previous levels of Old ONO and Auna.
  - *Up-selling and cross-selling to our existing customer base.* We intend to use our existing customer relationships to sell additional products and services to our customers, which we refer to as cross-selling, or migrate them to higher value services, which we refer to as up-selling. In particular, we intend to encourage our customers to subscribe for additional services by offering bundled services at prices lower than those provided by our competitors or by us on an individual basis. We believe that providing existing customers with a variety of new and enhanced services

with tiered pricing options encourages them to subscribe to more than one of our services. While bundling and new pricing options are expected to increase the number of our double or triple play customers, we will also pursue a strategy to migrate customers to higher value services and bring Auna's RGUs per customer in line with that of Old ONO in the short term thereby increasing ONO's RGUs per customer on a combined basis to European industry-leading levels in the medium term.

- *Offering our enhanced pay television services at competitive prices to increase penetration levels.* In 2004, approximately 80% of Spanish households did not subscribe to any pay television offering, against a European average of approximately 50%. We believe that an enhanced product offering with competitive pricing will enable us to increase penetration levels and improve customer loyalty. We also intend to migrate substantially all of our customers to digital technology and continue our phased roll-out of VoD, which we launched in December 2005 in Old ONO franchise areas.
- *Leveraging our expanded network and Auna's know-how to further improve business services.* We intend to grow our customer base among SMEs ("Small and Medium Enterprises") within our franchise areas by capitalizing on our technologically advanced network and success in marketing bundled voice, data and value-added services. We believe that our increased scale and the national reach of our network will allow us to leverage the strength of our high-margin business segment in a wider geographic area, thereby significantly improving revenues in this segment. With over 120,000 business customers, we expect that Auna's existing relationships and know-how in this segment will prove invaluable to us in our other franchise areas where we will promote these services. In addition to SMEs and as a result of the Auna Acquisition, we are the largest competitor to Telefónica in the wireline market, serving large corporations and public entities. We are also seeking to expand our large customer base by providing tailored voice, data and value-added services solutions.
- *Optimizing return on capital.* Our capital expenditures are subject to rigorous return on investment criteria and planned marketing strategy. Given the significant capital expenditures we incur to complete the deployment of our network, it is critical that we optimize the return on homes we pass as soon as practically possible. We intend to continue focusing on reducing to a minimum the period in which homes passed are not ready to receive our services. In addition, we carefully choose the new areas in which to extend our network, focusing on return analyses based on the recommendations of our marketing and network development departments.
- **Integrating and transforming Auna's business.** We aim to integrate and transform Auna's business through the following strategies:
  - *Implementation of Old ONO's practices at Auna.* The Auna Acquisition will afford us the opportunity to implement Old ONO's more efficient business and operational practices in Auna's residential services segment. We have reviewed Auna's operations with a view to generating cost savings and elevating margins at Auna to levels similar to those already achieved by Old ONO. Given our understanding of Auna's operations and the similarities between our two businesses, we believe we will be able to optimize operations in areas such as customer installation, customer relationship management, sales and marketing, call centers, network operations, maintenance and construction. We also intend, where possible, to renegotiate our supply and service contracts to obtain the most favorable pricing possible.
  - *Eliminating duplicated activities across Old ONO and Auna.* We expect to achieve savings through the optimization of operations, costs, equipment and personnel across the two businesses. The main drivers of this strategy in the short-term will be: elimination of duplicated leased backbone intercity fiber and rationalization of network operation centers, head office, call center and IT departments, resulting in the reduction of headcount and property lease costs.

### **Integration and Transformation Process**

In order to maintain "business as usual" and ensure a timely integration of Auna, we formed a Transformation Committee prior to the Auna Acquisition composed of certain members of our senior

management to oversee the integration of Auna and the transformation of our business. A Transformation Director was appointed to lead this initiative and a Transformation Department was subsequently established, composed of individuals focused solely on this initiative and working under fixed-term contracts with incentive based compensation. In connection with the integration and transformation process, we have appointed DMR Consulting, a well known business consultancy group, to assist us with the integration process. DMR Consulting is familiar with our business, having assisted us with the integration and transformation of Retecal.

The Transformation Department has identified approximately 120 specific priority projects to complete the integration and transformation process. Each project will have a detailed implementation plan and will be costed and subjected to a rigorous cost/benefit analysis. The Transformation Committee currently meets weekly to approve individual projects and to review the progress of ongoing projects.

The initial planning stage of the integration and transformation process is largely completed and the Transformation Department is currently focused on working up detailed implementation plans for priority projects. With the exception of projects in the business area, most projects are focused on transitioning Auna's network, software, practices and procedures to the applicable Old ONO model. In the business area, projects have been established to integrate the business service functions utilizing the model followed by Auna.

One of the first projects for the Transformation Department was to ensure that, with effect from the date of acquisition, only ONO products and services were being marketed to new customers in the Auna franchises and that the marketing of Auna products and services was terminated. Currently the most significant areas of focus and investment and the areas with the largest potential for cost savings are network related. Projects in this area include:

- the elimination of duplication in the national networks;
- the cancellation of Auna circuits in Old ONO franchise areas;
- the optimization of access technologies, such as radio and ULL;
- the implementation of the Old ONO construction model and order management and provisioning systems in Auna franchise areas;
- the renegotiation of supply and service contracts to reflect the enlarged size of ONO; and
- the transition from Auna to ONO suppliers.

Another area of significant focus and investment is the transition of the Auna sales function to the Old ONO model, which involves the change in the sales channel mix and rebalancing towards the most efficient and cost effective channels. Additionally, the Transformation Department is reviewing staffing levels for all areas of ONO's operations to eliminate duplication and achieve greater efficiency. A labor force reduction plan was initiated in 2006 to reduce duplicated functions that have arisen following the Auna Acquisition and to introduce a greater degree of efficiency in the Auna business. We have recently agreed the terms of this labour force reduction with the relevant unions and we have received the required governmental approval for a reduction of up to 785 employees. Redundancies under this plan will be effective from May 2006 to October 2007 (18 months period from the governmental approval).

The integration and transformation process is expected to continue for up to three years. Although significant capital expenditure will be required, especially in earlier periods, the full benefits of the process are not expected until it has been completed.

## **Our Products and Services**

We currently provide a broad array of telephony, Internet and cable television services to our residential and business customers in our franchise areas in Spain. The following table sets out certain information with respect to our residential and business service customers as of December 31, 2005:

<i>Data in units</i>	2003	2004	2005			% change 04/05
			Actual	Old ONO	Auna	
Cable	581,345	676,858	1,660,156	882,723	777,433	145.3%
Other direct access	-	-	110,885	-	110,885	
<b>Residential direct access customers</b>	<b>581,345</b>	<b>676,858</b>	<b>1,771,041</b>	<b>882,723</b>	<b>888,318</b>	<b>161.7%</b>
<b>Residential indirect access customers</b>	-	-	<b>375,707</b>	-	<b>375,707</b>	
Direct access customers	13,133	17,369	77,084	25,995	51,089	nd
Indirect access customers	-	-	44,573	-	44,573	
<b>Business customers</b>	<b>13,133</b>	<b>17,369</b>	<b>121,657</b>	<b>25,995</b>	<b>95,662</b>	<b>nd</b>

At the end of 2005, we had a total of 1,771,041 residential direct access customers, an increase of 161.7%, including 888,318 residential direct access customers contributed by Auna.

In Old ONO franchises, we have experienced an increase of 30% reaching 882,723 residential customers at the end of 2005 from 676,858 at the end of the previous year, as a result of (i) the inclusion of Retecal's 106,907 customers in the Group, (ii) our efficiency releasing to marketing the homes that we pass and (iii) of our focus on making our services available to more customers.

### **Residential direct access services**

#### *Cable Services*

Since the Auna Acquisition, ONO's cable services offering have been marketed to new customers in all ONO franchises. However, ONO products and bundles now offered in Auna's franchises do not currently match the quality and characteristics of those offered in Old ONO franchises. The capital expenditure program required to enhance the capabilities of Auna's network to enable it to provide the same quality of services (including VoD and higher Internet speeds) as those of Old ONO's network has already started and is expected to be substantially completed by the end of 2006.

The table below sets out certain information with respect to our residential cable services customers as of December 31, 2005:

*Data in units, except if otherwise stated.*

	2003	2004	2005			% change 04/05
			Actual <sup>(1)</sup>	Old ONO	Auna	
<b>Residential</b>						
HRTM <sup>(2)</sup>	1,743,266	2,038,172	5,651,678	2,901,378	2,750,300	177.3%
Customers	581,345	676,858	1,660,156	882,723	777,433	145.3%
Penetration	33.3%	33.2%	29.4%	30.8%	29.0%	(3.8p.p)
Churn	13.7%	16.1%	18.6%	16.6%	20.7%	2.5 p.p.
ARPU (€)	54.1	54.6	51.9	53.6	50.3	(4.9%)
RGUs	1,082,715	1,263,260	3,129,454	1,684,565	1,444,889	147.7%
RGUs per customer	1.86	1.87	1.89	1.91	1.86	1.1%

<sup>(1)</sup> ONO data includes Old ONO and Auna data since the Auna Acquisition in November 2005.

<sup>(2)</sup> Homes released to marketing.

#### *Bundled Services*

In order to maximize revenues from each home passed, we actively encourage customers to subscribe to more than one service by offering price savings and the convenience of having a single supplier and a single point of contact and billing for all communication, entertainment and information needs.

We have adopted an aggressive triple play strategy, using a tiered offer of bundled products. Customers who subscribe for more than one service currently pay on average 20% less than the aggregate

cost of subscribing for the corresponding services on an individual basis. In addition, initial connection and installation charges are currently waived for all customers subscribing to any of our bundled services. In 2005, Auna also enhanced its focus on bundling in line with current market trends in the Spanish telecommunications market, where most of the operators are offering bundled telephony and Internet services.

Since the Auna Acquisition, ONO's cable service offering has been marketed in all ONO franchises (subject to Auna's network capabilities). Existing Auna customers at the time of the Auna Acquisition are still provided with the former Auna bundled products. We offer the following bundled services to new customers:

	Television package	Telephony	Broadband <sup>(1)</sup>	Monthly charge <sup>(2)</sup>
<b>Broadband Internet</b> .....	—	Included	4Mbps	€44.90
<b>Digital Television:</b> <sup>(3)</sup>				
TV "Familiar" or TV "Estrella" (Basic).....	Basic	Included	—	€29.90
	Basic	—	4Mbps	€46.90
	Basic	Included	4Mbps	€49.90
TV "Premium".....	TV Premium	Included	—	€41.90
	TV Premium	—	4Mbps	€58.90
	TV Premium	Included	4Mbps	€61.90

<sup>(1)</sup> In areas where our network is not yet set up to provide 4 Mbps service (including all of Auna's franchises), we provide 1 to 2 Mbps service. The monthly charge is the same for either service.

<sup>(2)</sup> We charge an additional fee of €6.49 per month for a television decoder, and there are other charges for cable modems, phone terminals and other equipment, as applicable.

<sup>(3)</sup> Since the launch of our digital television services in 2003, we have discontinued the marketing of our analog television services in areas where we have digital television capabilities. We continue to provide bundled services with analog television programming to existing analog television customers. Since December 2005, the subscription for premium "ojo", VoD services is 8.90€.

In addition to monthly charges, customers also pay variable charges related to telephony usage, pay-per-view television programs and other value-added services.

### Residential Telephony

Our residential telephony service offers direct access connectivity to our customers in our franchise areas. We seek to maximize the use of our own network when routing calls in order to minimize interconnection costs and capitalize on our control over quality of service. Currently our networks interconnect directly with the networks of Telefónica, Amena, France Télécom, Vodafone and Cable & Wireless, among others.

Our initial one-time connection fee is €45.90, which we believe is attractively priced compared to Telefónica's installation charges. We waive this connection fee for customers who subscribe to any of our bundled services. The standard installation fee is €60.90, but this fee is routinely offered at a promotional reduced rate. The portability fee of €25.00, which allows a customer to become an ONO customer while maintaining his telephone number, is also routinely offered at a reduced promotional rate.

We offer a direct access service that allows our customers to choose from three basic plans, depending on their preferences and needs. These services are now offered to all of our customers in the Old ONO franchise areas and to new customers in the Auna franchise areas:

- *Flat rate:* Included in the standard fixed monthly fee of €17.90, we offer lifetime free calls between all our customers.
- *Zero rate:* For an increase of €1 over the standard fixed monthly fee, this plan allows customers to call any fixed-line telephone number in Spain by paying only the €0.0833 set-up charge per call and no additional charge for minutes of use.

• *National flat rate*: Until April, for an increase of €9 over the standard fixed monthly fee our customers can call any fixed-line telephone number in Spain for free. In April, we launched “Todo Incluido” for €20.90 monthly fee our customers call any fixed-line telephone number in Spain for free.

Since the Auna Acquisition, new customers in Auna franchises have been offered the same pricing plans as those of ONO.

For all of our customers, we include a range of additional services in our basic telephony service including second line, second home and vouchers for mobile phones providing for savings of up to 60% in fixed-to-mobile calls from fixed ONO telephone lines.

Additionally, all of our customers are offered a number of value added services (basic and premium) free of charge until 2007. These include voicemail, call waiting, call return, short code dialling, caller identification, selective barring of outgoing calls, call return and an alarm clock service. We also offer telephone handsets for sale or rental.

Since June 2005, we have also offered to all our customers our free information service number (11828). This service allows customers to enquire about the location and telephone numbers of restaurants, cinemas, theatres and similar establishments. Our competitors typically charge premium rates for this service.

We constantly monitor the tariffs and services offered by our competitors and adjust pricing and the type of services we offer on a regular basis to maintain our competitive position. Our tariffs are usually priced at a discount as compared to those of Telefónica.

#### *Residential Internet*

Our broadband Internet service connects our customers to our local networks via cable modem at speeds of up to 4 Mbps in Old ONO areas and up to 2 Mbps in Auna areas. However, our network is capable of higher speeds and we plan to increase the amount of bandwidth we offer our customers in response to market demand. We are also upgrading the network capabilities in the acquired Auna areas to match the speed we offer in Old ONO areas. This process will start in Madrid in June and will be extended to the other regions in due course.

Our broadband Internet service is an "always on" service, allowing for unlimited downloads. We price our standard Internet service on a flat fee basis (i.e., no usage fees) starting at €35.90 per month for 4 Mbps (on a bundled basis). We also offer an entry-level broadband service based on a monthly usage fee starting at €15.90 per month (only in bundled products). This entry-level service is unique in the Spanish market as it includes unlimited usage for email and chat, charging only for internet browsing. As of December 31, 2005, the majority of our Old ONO's broadband customer base was benefiting from transfer speeds of up to 4 Mbps.

Our Internet service offerings consist of the following:

	<u>Monthly Charge<sup>(1)</sup></u>			<u>Download speeds</u>
	<u>Bundled</u>	<u>Unbundled</u>	<u>Installation</u>	
<b>ONO Broadband</b>				
Broadband ONO 24 Hours.....	€28.90	€35.90	€60.90	4Mbps <sup>(2)</sup>
Broadband ONO Mini (flat fee for email and chat and 1G Byte web usage quota) .....	€15.90	—	€45.90	600kbps

<sup>(1)</sup> Does not include monthly rental of cable modem for €8.99 or purchase of cable modem for €60. Installation of an Ethernet PC card is optional for €89.99.

<sup>(2)</sup> Customers in the Auna franchise areas currently have transfer speeds of 2Mbps but pay the same monthly charges as customers in Old ONO franchise areas.

In addition, our Kit ONO WiFi provides wireless broadband Internet services, at installation charges of €125.00.

## *Cable Television*

We provide our television customers with multi-channel pay television ranging from basic to premium packages. In addition, we offer all of our television customers pay-per-view services (including pay per view VoD services) on our own "Fila ONO" channels, broadcasting movie premieres and live soccer content. To enhance the service we provide to our customers and to reduce signal piracy, we encrypt our television content. Therefore, a decoder is required to receive the service, which is rented to our customers for €6.49 per month. As with our other services, customers can subscribe to our television services either as part of a bundled package or on an individual basis.

We offer our television services in a range of packages at different price levels in order to address the broadest possible cable television audience. We also broadcast various local and regional television channels that are not offered by Digital+, the satellite television provider in Spain. The programming offered to our customers contains a wide selection of television series, movies, sports, news, music, documentaries and children's channels including, among others, the following: Disney channels, Eurosport, MTV, Fox, Hollywood, Paramount Comedy, Showtime and CNN. We also offer pay-per-view movies from Hollywood studios, U.S. independent producers, and Spanish and other European producers. We have entered into contracts with affiliates of Sogecable to provide us with premier Spanish soccer content for our pay-per-view services, including Spanish league and King's Cup soccer matches. These contracts end in 2009, unless otherwise extended or renewed.

In 2005, we acquired Factoría de Canales, a television content aggregator. We believe the acquisition will enable us to improve monitoring over content quality, allow us to have influence on content and channel development and reduce our dependence on others, including Sogecable, while at the same time provide us with an additional source of revenues. Factoría de Canales currently produces eight television channels for ONO. It also provides channels to other pay television operators in Spain, such as Imagenio.

Television services in both Old ONO's and Auna's franchise areas offer similar content. Accordingly, most of the contracts with content providers, including soccer pay-per-view and other agreements with Sogecable, are duplicated. It is our intention to consolidate Old ONO's and Auna's line-ups into a single offer based on unified content agreements. We are therefore in the process of re-negotiating our content agreements.

We first launched commercial services in our Old ONO franchises in 1998, offering analog cable television services. In 2003, we completed the deployment of our digital television platform, the installation of our state-of-the-art national digital head-end in Madrid, and the development of our own electronic program guide and digital channel line-up. Since June 2003, we have been offering digital television services in all of Old ONO's franchise areas.

We also now offer digital television services in all of Auna's franchises other than Navarra and La Rioja, which we anticipate will be digitalized in the near future, and the Canary Islands, where we are currently analyzing the feasibility of deploying of digital television services.

Following the launch of digital television services we discontinued the marketing of analog services to new customers despite continuing to provide analog services to existing customers. However, once sufficient operational experience in digital services was obtained by Old ONO in 2004 and Auna in 2003, both began pro-actively migrating existing analog customers to digital services. As of December 31, 2005, approximately 77% of Old ONO's cable television customers enjoy our digital offering and we expect that by the end of 2006, substantially all of Old ONO's cable television customer base will have migrated to digital.

The introduction of digital television has allowed us to increase our television customer ARPU in Old ONO, supported by an expansion of our channel line-up and an increase in the ratio of use of our pay-per-view services. Pay-per-view programming is available using near-video-on-demand ("NVoD"), a service introduced by Old ONO to allow our customers to access pay-per-view movies that commence at fifteen minute intervals. In our Old ONO franchises, we provide our customers with more than 150 digital channels, including 54 channels reserved for NVoD as well as our electronic programming guide. From our digital television center in Madrid, we broadcast to all of our customers using our national network. We expect to offer interactive digital television services in the future, including Internet access, TV mail and consumer applications, such as games, through television sets. Auna's digital services are broadcast to

customers using our national network from a separate digital television center, which is also located in Madrid.

In December 2005, we launched a full video-on-demand ("VoD") service, branded "ojo" in Old ONO franchises. We believe that ojo will provide us with a competitive advantage over the satellite television operator, Digital+, which does not currently have the technological capacity to offer such a service. With respect to Auna's franchise areas, capital expenditures will be required to launch VoD. We expect to start the deployment and launch of VoD services in Auna franchises in 2006-2007. Where available, ojo is offered to all customers and includes free and premium programming. As of December 31, 2005, 45% of our TV customers had trialed ojo services.

*ONO Digital Television Offer.* The current digital television portfolio seeks to fulfil the preferences of a wide range of television viewers, from a family-oriented television package (TV Familiar) to a package with movie, documentary and sports package (TV Estrella). Higher-spending customers are targeted with "TV Premium" and "TV Total" packages, the latter including a subscription to selected ojo premium content and an adult channel. Finally, the "Mini Digital" package is used as a customer retention tool. All digital customers in Old ONO franchises have access to ojo.

The table below shows the number and type of channels available to subscribers of our digital television service packages and the monthly retail charge for each package:

	TV MINI-DIGITAL <sup>(4)</sup>	TV ESTRELLA	TV FAMILIAR	TV PREMIUM	TV TOTAL <sup>(5)</sup>
<b>Digital offer<sup>(1)</sup></b>					
Pay channels .....	7	56	54	81	83
Terrestrial channels .....	13	13	13	13	13
Fila ONO pay-per-view channels .....	37	37	37	37	37
ONO channels .....	2	2	2	2	2
Adult channel.....	1	1	1	1	1 <sup>(5)</sup>
ojo (VoD service) <sup>(6)</sup> .....	3	3	3	3	3 <sup>(5)</sup>
<b>Total TV channels<sup>(1)</sup> .....</b>	<b>59</b>	<b>108</b>	<b>106</b>	<b>133</b>	<b>135</b>
Audio channels .....	—	5	5	15	15
<b>Total channels<sup>(1)</sup> .....</b>	<b>59</b>	<b>113</b>	<b>111</b>	<b>148</b>	<b>150</b>
Monthly charge <sup>(2)(3)</sup> .....	—	€18.90	€18.90	€33.90	€47.90
Adult channel additional charge .....	€8.90	€8.90	€8.90	€8.90	—
Subscription "ojo" <sup>(7)</sup> .....	€8.90	€8.90	€8.90	€8.90	—

(1) The number of channels may vary depending on the franchise.

(2) Other than with respect to TV MINI-DIGITAL, these charges refer to an unbundled television subscription. Charge for adult channel not included.

(3) Does not include the additional fee of €6.49 per month for renting a decoder.

(4) Only available if bundled with another service (Internet or telephone).

(5) TV Total includes basic subscription to ojo, offering additional selected premium content, and subscription to adult channel.

(6) Available in Old ONO franchises only.

(7) Monthly fee of €12 for unbundled television subscription.

#### *Other direct access*

We currently market our telephony and broadband Internet services across most of Spain through Telefónica's unbundled local loop. Currently, we connect more than 100 of Telefónica's switch points with our own access equipment. We are currently assessing the expansion of this service into areas where our cable network is not deployed and the deployment of television services over a digital subscriber line.

### *Indirect Access*

We currently provide indirect access services to customers in Auna franchise areas. This customer base has been contributed by Auna in its entirety. We have been making an effort to migrate all of our indirect access customers to our direct access services, as indirect access services provide lower margins than direct access services.

### ***Business Services***

#### *Small and medium enterprises*

We provide our SME business customers with a wide range of voice and data communications services. The experience that both Old ONO and Auna have gained since the launch of operations has provided us with insight regarding our current SME customers' communications requirements. This knowledge led both Old ONO and Auna to develop new services and to redesign their sales and marketing processes in order to fulfill our business customers' needs.

By leveraging our residential network and taking advantage of our enlarged network following the Auna Acquisition, we believe that we can provide direct access communications services to SME business customers and earn incremental, higher margin revenues with limited need for additional investment.

SME businesses demand simple and understandable products and services that provide them with effective solutions to their communications requirements, generally at flat rate prices.

We have a wide and varied portfolio of products and services, ranging from simple fixed telephony line services to the most advanced corporate data networking, flat-rate packages for voice and Internet services, leased lines, VoIP, voice portals, hosting and housing, security and on-line back up. Bundled services have been one of the principal factors of growth in both Old ONO's and Auna's business services customer base during 2005.

We can also address the specific telephony needs of our customers with the various value-added services contained in our product portfolio, such as voicemail, call waiting, call return, short code dialling, caller identification and selective barring of outgoing calls. We also offer our customers the possibility to outsource equipment, applications and technical tasks.

We currently offer our SME business customers in our franchise areas a comprehensive range of services, including:

- telephony (including voicemail, call forwarding, three-way calling and last call identification) for both digital and analog direct lines and switchboard connections and Integrated Services Digital Network (ISDN), which is also used for data transmission;
- premium-rate numbers;
- PBX (private branch exchange) related services;
- infrastructure services such as housing servers and leased lines;
- Virtual Private Network over IP (IP-VPN), guaranteed Internet access, firewall management and virtual ISP;
- Business Platform services, including Hosting, Application Service Provider Exchange (ASP Exchange), Streaming, ASP for ERP and FTP (File Transfer Protocol) used for centralized electronic transfer of funds (for credit cards and debit cards transactions);
- VoIP; and
- other value-added services such as domain name registration, e-mail accounts and web hosting.

We also provide our SME business customers with service level agreements and on-line billing information.

### *Large Customers*

We offer telecommunications solutions to large companies and public entities. We develop and manage customized solutions for our large customers client base, through an integrated range of wireline networks.

Large Customers includes large public companies, utility companies and banks. Consequently, a small proportion of clients comprise the largest portion of revenues.

Large Customer accounts demand more specific and sophisticated services than our SMEs. We believe that our fiber-rich local access network in our franchise areas and our increasing presence as a national communications company as a result of the Auna Acquisition allow us to offer businesses competitively priced, reliable and high quality products and services covering a complete voice and data portfolio.

An account manager is assigned to each large customer, acting as a single point of contact for all of its requirements, including monitoring orders and contracts, consultations regarding the status of orders as well as communication and resolution of problems and claims.

We also employ telecommunications consultants who assess our customers' needs and provide innovative communication solutions, which are flexible and adaptable to each customer. In addition, we have established strategic alliances with large corporations such as Sun, Compaq and Microsoft, which helps us to improve the quality of our service.

For customers inside Old ONO's franchise areas, we have developed dedicated provisioning and installation teams and have established an account management system to give these customers a single direct point of contact within ONO. With this system, we assign each large customer a specific person/unit within ONO, which allows us to provide customized solutions on a proactive basis to our large customers' communications requirements.

ONO's large customers include Banco Santander, IBM, Auchan, Endesa, Caja Madrid, Caja Tarragona, Caja de Cantabria, Universidad de Valladolid and certain public administration entities such as Junta de Extremadura, the regional authority of the island of Mallorca and other important city councils (Valencia, Getafe and Mataró).

### ***Wholesale and operators services***

Through our wholesale segment, we offer services to other operators aiming to utilize the excess capacity on our national network. These services include infrastructure (carrier services), connectivity (IP services) and Intelligent Network Services such as toll free and premium numbers.

- Our carrier services provide other operators with leased circuit lines on our network. We provide guaranteed bandwidth from 2 Mbps up to 2.5 Gbps.
- As a national Tier 1 Internet Service Provider with access to the Spanish Internet link (Espanix), and as one of the main Internet traffic managers in Spain, we are able to offer wholesale IP services to other operators and large consumers of bandwidth. We provide our customers with a series of services, including IP transit service for level 2 (national or regional) ISPs, virtual private network over multi-protocol label switching ("MPLS") technology, virtual ISP, ADSL resale, housing and remote access.
- Voice carrier services allow operators to send their traffic through our network. This service offers several advantages to our customers including: elimination of the need to open interconnection points with all the operators; economies of scale savings by sending the traffic to us, instead of sending their traffic directly to each operator; and the ability to send us their peak traffic in the event that their direct point of interconnection with other operators are saturated.
- Intelligent Network Services. This is a high volume and low margin service, which we provide selectively to a very small number of customers, as careful risk management is required.

## **Sales and Marketing**

### ***The "ONO" Brand***

We have been using the ONO brand since 1998 and our integrated services in the residential and business markets are offered under the "ONO" brand. The ONO brand is used in all advertising, sales materials, customer contracts, bills, employee uniforms, construction signs, installation vans, and elsewhere in our business. In addition, the ONO brand and services are promoted extensively to customers through a monthly magazine (which includes television programming schedules) and three 24-hour ONO television channels. Since the Auna Acquisition, all of Auna's integrated services in the residential and business markets are offered under the "ONO" brand. Unbundling services previously provided by Auna are marketed under the "ONO light" brand.

We believe that the ONO brand is a strong marketing tool and a well-recognized brand in the areas of operation where Old ONO has been marketing its services under the ONO brand for the last several years.

A survey that we commissioned in January 2006 reported that Old ONO customers position the ONO brand as a triple play operator, with unprompted awareness of 91% as a telephony operator, 72% as an Internet access provider and 84% as a multi-channel pay-television provider. According to that report, the ONO brand had greater brand recognition than our main competitors, Telefónica and Digital+ in Old ONO franchise areas.

The same survey also reported that, in the case of non-ONO customers, in the main cities in which Old ONO operates, we are the second most recognized telecommunications brand, with unprompted awareness of 47% as a telephony operator, 42% as an Internet access provider and 40% as a multi-channel pay television provider, after Telefónica in the case of telephony, Telefónica and Wanadoo in the case of Internet access, and after the former analog pay television channel Canal+ in the case of television.

We conduct extensive advertising to support our brand, including billboards, regional and national press, television and radio advertising, as well as using other innovative methods. In addition, we have product placement agreements with a number of Spanish regional and nationwide free-to-air channels. Following the Auna Acquisition, we launched an intensive nationwide advertising campaign in November and early December 2005.

In addition, we support our local radio and television advertising with extensive sponsorship of regional and local cultural events, sports teams, trade shows and festivals.

In December 2005, we launched a full video-on-demand ("VoD") service, branded "ojo" in Old ONO franchises. We believe that ojo will provide us with a competitive advantage over the satellite television operator, Digital+, which does not currently have the technological capacity to offer such a service. With respect to Auna's franchise areas, we expect to start the deployment and launch of VoD services in 2006-2007.

### ***Quality and Customer Service***

Customer satisfaction is essential to the maintenance of our current subscriber base, pricing levels and future prospects. We consider customer satisfaction to be mainly dependent on the quality of our networks. For this reason we have deployed redundant high speed, high capacity fiber-optic broadband networks from the start of our network buildout. We also seek to ensure that our main suppliers and contractors are capable of providing us with top quality products and satisfactory service level agreements.

The network quality ratios for Auna are significantly lower than those achieved by Old ONO. We aim to bring network quality in all ONO's franchise areas in line with those of Old ONO through a number of transformation projects that are currently being launched.

In addition to the quality of our networks, we believe that customer service and attentiveness to the needs of our customers also play a major role in the growth of our residential and business services. Since the launch of our operations, we have continuously invested in improving and enhancing our customer service in all our customer oriented processes, including:

- **Installations and provisioning:** The installation process is the first contact we have with our customers once they have contracted our services. Due to our geographical reach, in the Old ONO franchises, we work with different installation contractors, which are all trained in our specific ONO installation process and monitored by our internal installations team and specialized call center help desk. Aiming to maximize customer satisfaction, we have developed specific tools to allow for the automated provisioning of services immediately following installation. In addition, we have re-designed our process to centralize all of our installation and provisioning functions and customer contact in a separate specialized call center. Old ONO and Auna achieved the following provisioning ratios in the fourth quarter of 2005:

	Old ONO		Auna <sup>(1)</sup>	
	Q4 2005	Q3 2005	Q4 2005	Q3 2005
Average provisioning time .....	5 days	5 days	6 days	9 days
Provisioning completed within 14 days .....	95%	95%	94%	82%
Repair execution within 48 hours .....	97%	99%	90%	89%

<sup>(1)</sup> Relates to Auna's direct access cable services only.

We are currently implementing a project to bring installation and provisioning processes in Auna's franchises in line with those of Old ONO as part of our integration and transformation process.

- **Billing process:** We view our billing process as a key service to our customers, and we continuously seek to improve the disclosure, flexibility, and lay-out of our bills. In the Old ONO franchises, we have improved services such as itemized billing by providing on-line billing information, which is more customer friendly and cost efficient. Old ONO implemented a new billing system, called Geneva in mid-2005. The Geneva system is widely used in the telecommunications industry and provides us with further flexibility and increased functionality to enhance our customer service. Auna has historically used a proprietary billing system, and we intend to start migrating Auna customers to our Geneva billing system. Of the calls received at customer call centers in Old ONO franchise areas, 0.6% were related to invoice inquiries during the last quarter of 2005.
- **Customer call centers:** In the Old ONO franchises, we operate three customer call centers, two in Valencia and an additional outsourced center in Valladolid, with a total of 450 operators, providing service 24 hours a day, 365 days a year. Three outsourced call centers of Auna are operated in Barcelona, Sevilla and Madrid. The number of call centers across the new combined entity will be reduced as a part of the integration and transformation process. Across all Old ONO call centers, we have added an integrated automated call-handling system to our process in order to re-direct our customer calls to separate specialized help desks, thus increasing the number of calls handled and reducing our answering times. In the last quarter of 2005, over 90% of Old ONO calls were handled within 30 seconds for residential customers and over 90% handled in less than ten seconds for business customers. Within the call centers, we operate separate help-desks to address the needs of business, large customers and residential customers. Each customer service agent in the Old ONO call centers attends a four- to six-week training program covering specific sales and customer service skills. We also focus on in-house training of installation technicians to ensure compliance with quality standards and to ensure that they can satisfy customers' needs. Our call centers use a comprehensive trouble ticketing system that specifically addresses the requests of our residential and business customers. In Old ONO franchises, we currently use the "Clarify" system to track trouble tickets.
- **Customer loyalty and retention:** Customer loyalty and retention is a high-priority objective given its impact on churn rates. In the Old ONO franchises, we have created a loyalty program called "Club ONO" for all of our customers. Club ONO members receive gifts and tickets to exclusive events such as film premieres. We also have a team dedicated to customer retention in our call centers, which helps resolve customer problems or complaints. In addition, we have launched a customer loyalty project called "Cliente Satisfecho YA!" which allows us to monitor customers' loyalty through interviews, visits and other contacts. Analyses of these contacts help us to satisfy identified needs. Cliente Satisfecho YA! seeks to build a personalised relationship with the customers, which allows us to tailor our services to the customers' needs. Similar programs will be launched within Auna franchises in coming months.

## **Our Competition**

We face significant competition from established and new competitors that also provide residential telephony, residential Internet and pay television services as well as business telecommunications services in Spain. We believe that competition will continue to intensify in each of these businesses.

Although Telefonica and some ULL operators have recently launched triple play offers, we believe that our ability and proven experience to offer bundled services to our customers provides us with a competitive advantage over our main competitors.

### ***Residential Telephony***

We compete primarily with Telefónica in providing direct access telephony services to residential customers in our franchise areas. Telefónica is the only infrastructure operator to widely offer direct access telecommunications services to residential customers in our franchises at present. We also compete with other operators, including ULL and indirect access providers such as Wanadoo (a subsidiary of France Télécom in Spain), Ya.com (a subsidiary of Deutsche Telekom in Spain), and, to a certain extent, with the three mobile telephony operators, Telefónica Móviles, Vodafone and Amena. We also face a threat from future entrants in the Spanish telecommunications market.

The following is a description of our principal competitors in the residential telephony market:

- **Telefónica.** Telefónica, the incumbent telecommunications operator in Spain and one of the largest Spanish corporations, has an established market presence and resources substantially greater than ours. Telefónica has a fully built national telephony network and has extensive experience in marketing and operating telecommunications services in Spain, and is also pursuing opportunities outside Spain in order to become a leading international player. Telefónica is required to provide universal telephony services across Spain and must impose uniform tariff rates. According to a report from the Spanish regulator, CMT, , 69.5% of the direct residential telephony customers in Spain were Telefónica's customers as of June 30, 2005. Our growth in residential telephony services depends on our ability to attract Telefónica's customers to our services.
- **ULL providers.** After the liberalization of the local loop in 2002, ULL providers such as Wanadoo and Ya.com have developed a network in order to provide their customers with voice and broadband services over Telefónica's local loop, thus being able to partially control the quality of the service at their discretion using their own network up to the local loop. We believe our competitive advantage over the ULL providers is our ability to offer certain value-added services through our cable technology and the total control of our network, from the head-end to the customer.
- **Other indirect access telephony providers.** Indirect access telephony providers such as Tele2 connect customers primarily through Telefónica's networks. Indirect telephony providers market number portability, carrier pre-selection and other such services to their customers and potential customers. These services are provided through Telefónica's network, thus making quality management difficult by requiring the customer to keep its Telefónica connection as a result of their dependency on Telefónica. We believe that indirect telephony access services offer the customer a weaker solution than our direct access network services and that this provides us with a competitive advantage over these competitors.

Spain has yet to see a significant increase in Internet based telephony (or voice over Internet protocol—"VoIP") traffic in the residential market. We do however anticipate that this will represent a competitive threat in the future.

We also compete with the three mobile telephony operators in Spain: Telefónica Móviles, Vodafone and Amena, that may threaten the competitive position of our network, particularly if the costs of calling plans for mobile phones continue to decrease or if consumers migrate entirely from fixed line services.

## ***Broadband Internet***

Telefónica is the leading provider of Internet access in Spain through its DSL service and is our principal competitor for broadband Internet services. Other DSL Internet service providers such as Wanadoo and Ya.com offer high-speed Internet services over Telefónica's network, thus reducing their control over the quality of their services. These DSL Internet service providers also increasingly offer, through their own ULL infrastructures, broadband services, thus allowing them to control to a large extent the quality provided to their customers. As with our telephony services, we believe our competitive advantage over the ULL providers is our capacity to offer value-added broadband services through our cable technology and the total control of our network.

## ***Television***

We compete with other television broadcast companies, both public and private, pay and free-to-air. We also compete to varying degrees with other communications and entertainment media, principally home cinema, movie theatres and video stores.

Our most significant competitor in the Spanish pay television market is Sogecable, which offers Digital+, the direct-to-home satellite multi-channel television service. Digital+ is the platform resulting from the merger of the two former satellite TV providers in Spain, Canal Satélite Digital and Vía Digital in 2003. Digital+ currently offers a wide range of channels in a variety of price packages, including multiplexed Canal+ (which offers first run marks and first division soccer programming), the Disney Channels and Cinemania as well as access to unencrypted international channels.

Since direct-to-home services are satellite based, Digital+ does not need a terrestrial network to provide services to its customers. However, direct-to-home customers must lease a satellite dish and a set top box. Furthermore, direct-to-home providers such as Digital+ can only offer limited interactivity using a telephone return path, and do not currently have the technical capability to offer neither bundled service packages similar to our offering nor VoD services.

On November 29, 2002, the Spanish Government approved the merger between Sogecable and Vía Digital subject to 34 conditions. The following is a summary of the principal conditions imposed by the Spanish Government that may materially affect our business:

- *Television line-up.* Sogecable has the obligation to carry certain channels from non-related parties which must represent at least 20% of the existing television line-up before the merger;
- *Limitations in agreements with the major content providers and pay-per-view services.* These restrictions, among other things, require Sogecable to (i) waive its existing preference rights of renewal in its agreements with the major content providers, (ii) limit to three years its exclusivity clauses related to the majors movies agreements and (iii) hold non-exclusive rights on pay-per-view content related to Spanish soccer league and King's Cup with the possibility of either offering this content to us and other competitors or permitting others the capability of negotiating directly with content providers. These provisions are intended to provide us with access to premium content at more reasonable prices;
- *Commercialization to third parties of a premium broadcast channel* which includes a first pass window of movies from the major content providers and theme channels, provided by entities of the Sogecable Group, either directly or through agreements with third parties;
- *Sogecable's relationship with Telefónica.* Sogecable cannot bundle Digital+ with Telefónica's Imagenio or sell content to Telefónica on a preferred basis as compared to the conditions offered to third parties; and
- *The establishment of a price cap to the Digital+ content.* The price cap is set on a yearly basis by the Government.

The above conditions apply until January 2008, except for the condition relating to the price cap, which is in effect until January 2007.

On February 3, 2003, we appealed the Spanish Government's approval of the merger before the Supreme Court. Other affected parties also appealed the approval. On November 7, 2005, the Supreme

Court rejected the appeal against the agreement of the Council of Ministers, clearing the transaction. As of the date of this Report, there have been no further material developments regarding this matter.

In 2005, Telefónica launched its "Imagenio" services, offering television services via DSL. The Imagenio service allows Telefónica to offer bundled services to its customers. Telefónica has announced that it had 200,000 customers at year-end 2005. Other operators, such as Wanadoo, are expected to launch video over DSL when technologically available to them.

In addition, national digital terrestrial television providers, such as NET TV, Veo TV, TVE, Antena 3, Telecinco, Cuatro and la Sexta, are expected to play a role in the Spanish television marketplace.

## ***Business Services***

### *SME Business Services*

Telefónica and its affiliates are our principal competitors in providing business telecommunications services, followed by BT, COLT and Wanadoo, among others, all of whom offer telecommunications services to business customers.

Our main competitors with their own infrastructure to offer business telecommunications services are Telefónica and COLT. Telefónica is serving most regions with a complete service offering, whereas COLT Telecom are service specialists, focused on specific needs of customers. We position ONO between the two concepts.

### *Large Accounts*

Telefónica is our principal competitor in providing data services to large corporations, as well as BT, COLT and Wanadoo.

The market trend in 2005 continued to be influenced by the increasingly important role played by data services in large corporations and, consequently, the demand for broader bandwidths, with a clear shift towards the unification of voice and data infrastructures.

## ***Wholesale and operators services***

Telefónica is our principal competitor in providing carrier services and circuit rental, both national and international, using its own network. We also compete with France Télécom, BT and COLT.

## **Regulatory Environment**

Set forth below is a summary discussion of the current European and Spanish telecommunications and cable television regulatory environments. This discussion is intended to provide a general outline of the more relevant applicable regulations and is not intended as a comprehensive discussion of such regulations. You should consider the regulatory environment discussed below as it could have a material impact on our business and results of operations in the future.

### **Regulation of Electronic Communications Services**

#### *European Union Overview*

Over the past decade the telecommunications market in the European Union ("EU") has been gradually liberalized. With the aim of consolidating the harmonized framework achieved amongst its Member States for regulation of free competition in telecommunications, in March 2002 the EU approved a new regulatory framework for electronic communications, much of which is included in the EU Directive on a Common Regulatory Framework for Electronic Communications Networks and Services (the "Framework Directive"). In addition, several other Directives and Guidelines were enacted in connection with:

- universal service and users' rights relating to electronic communications networks and services (the "Universal Service Directive");

- access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive");
- authorization of electronic communications networks and services (the "Authorization Directive");
- the processing of personal data and the protection of privacy in the electronic communications sector (the "Directive on Privacy and Electronic Communications"); and
- guidelines on market analysis and the assessment of significant market power under the European Community regulatory framework for electronic communications networks and services.

Such EU Directives were implemented in Spain by means of the approval of the Law 32/2003, November 3, General on Telecommunications (the "General Law on Telecommunications").

#### *National Regulatory Authorities in Spain*

The provision of electronic communication services and networks and the provision of cable television services in Spain are mainly regulated and overseen by the Ministry of Industry, Tourism and Commerce (*Ministerio de Industria, Turismo y Comercio* ("MITC")). The MITC's principal role is to set policy, issue regulations and sanction electronic communications operators and television operators where necessary. Under the General Law on Telecommunications, amongst others, the MITC appoints the operator or operators in charge of providing universal service, monitors compliance by operators with public service obligations, and approves the standard-contract with users.

An additional independent oversight body, the Telecommunications Market Commission (*Comisión del Mercado de las Telecomunicaciones*) ("CMT"), was created in 1996. The CMT supervises the activities of electronic communications operators and television operators in Spain. According to the General Law on Telecommunications, the CMT establishes and supervises the specific obligations imposed on operators in the relevant telecommunications markets, promotes competition in the audiovisual markets, solves conflicts between operators and, as the case may be, arbitrates operators disputes, on request of the negotiation parties. In addition, it has certain powers with regard to safeguarding the plurality of service offerings, access to networks and networks interconnection. The CMT also holds inspection, sanction and other powers in connection with certain matters such as price policy, specific markets definition, declaration of operators with significant market power (being entitled to impose obligations on said operators) and merger control.

Additionally, and according to the General Law on Telecommunications, the Spanish Government, the Ministry of Economy and Tax and the Radiocommunications National Agency ("Spectrum Agency") are also national regulatory authorities in the telecommunications sector. In relation to monitoring compliance with certain cable television provisions, the authorities of the relevant Spanish autonomous communities have also certain powers over the audiovisual sector.

#### *The General Law on Telecommunications of 2003*

The General Law on Telecommunications established a new regulatory framework for electronic communications services in accordance with applicable EU directives (and repealing and replacing, except for certain provisions, the General Law on Telecommunications of 1998, which liberalized the provision of telecommunications services in Spain). It is the primary legislation governing the provision of electronic communications services and networks. The General Law on Telecommunications aims, among others, at enhancing effective competition in the telecommunications sector, safeguarding compliance by operators with public service obligations (specially those related to universal service), promoting the development of the telecommunications sector, ensuring an efficient use of the scarce resources, such as numbering and spectrum, defending users' rights and contributing to the development of the internal market of electronic communications within the EU. According to the General Law on Telecommunications, telecommunications are considered as services of general interest to be provided under free competition, without prejudice to the fact that operators may have imposed upon them certain public service obligations.

The General Law on Telecommunications grants universal rights of access to basic services, contains provisions relating to the conditions that an individual or legal entity must comply with to be considered as an electronic communications operator, the privacy of communications, the protection of personal data and the configuration of networks and services, interconnection and access, public service

obligations, users' protection, market definitions and operators with significant market power and provides rules and procedures for the certification of devices used for providing telecommunications services.

In accordance with the General Law on Telecommunications, its provisions are to be implemented through several regulations. To date, the following are the most important regulations approved:

- Regulation on the conditions necessary to provide electronic communications services, the universal service and users protection, approved by means of Royal Decree 424/2005, April 15 ("Services Regulation").
- Regulation on quality to provide electronic communications services approved by means of Ministerial Order ITC/912/2006 developing Royal Decree 424/2005.
- Regulation on electronic communications markets, network access and numbering, approved by means of Royal Decree 2296/2004, December 10 ("Markets and Access Regulation").

With respect to markets definition, the General Law on Telecommunications establishes that the CMT will define the relevant markets (following EU Guidelines), determine whether or not said markets are competitive and, if not, determine the relevant operators holding significant market power in the same and impose on them the most appropriate specific obligations. The current markets, operators with significant market power and obligations imposed on them shall remain applicable, in the terms established by the General Law on Telecommunications, until the new markets are defined, the operators with significant market power appointed and their obligations determined. The CMT has concluded several markets review and it has approved certain Resolutions defining the relevant market, identifying the operators with significant market power and imposing them certain obligations.

#### *Principal Operators*

According to Article 34 of Royal Decree-Law 6/2000, issued on June 23, 2000, approving urgent measures to improve competition in the markets of goods and services, individuals or legal entities holding, directly and indirectly, more than 3% of the total share capital or voting rights of two or more companies that are principal operators in, amongst others, the fixed-line telephony market, which are defined as one of the five operators with the largest market share in the fixed-line telephony market, are not allowed to exercise their voting rights in excess of 3% of the total in more than one company, except with the prior authorization of the CMT. In addition, no individual or legal entity is allowed to appoint, directly or indirectly, members of the management body of more than one company that is a principal operator in, amongst others, the fixed-line telephony market, except with the prior authorization of the CMT. Additionally, according to the amendment to Royal Decree-Law 6/2000, individuals or legal entities considered as principal operators are neither allowed to exercise more than 3% of the voting rights of another principal operator nor to appoint, directly or indirectly, members of the management body of any company that is a principal operator, except in both cases, with the prior authorization of the CMT.

In July 2002, June 2003 and October 2004, the CMT declared the ONO Group and the Auna Group as principal operators in the fixed-line telephony market together with Telefónica Group, France Télécom Group and Jazz Telecom, S.A.

#### *Status of Electronic Communications Operator*

Under the General Law on Telecommunications, EU individuals or legal entities, or nationals of other non-EU member states if so established by the relevant international treaty signed by Spain or, prior Government authorizations in the rest of cases, are allowed to provide electronic communications services and to exploit electronic communications networks in Spain. They have this right as per the General Law on Telecommunications, as they only have to notify their intention to provide said services or to exploit such networks to the CMT, filing a notification which shall include certain information and documentation. Should private rights to use the spectrum be required by the relevant operator, such rights will be granted by the MICT or the Spectrum Agency.

Such notification must state the submission to the rules applicable to the rendering of the relevant service or the exploitation of the relevant network. The CMT shall have 15 days to oppose to such notification, should it not comply with the requirements established in the General Law on Telecommunications and the Services Regulation. If requirements are met, the CMT will order the record of

the relevant operator at the Registry of Operators. Operators shall be entitled to provide electronic communications services and to install and exploit electronic communications networks after notification takes place.

Pursuant to the General Law on Telecommunications, individual licenses and general authorizations granted under the former General Law on Telecommunications of 1998 have been extinguished, their holders being automatically authorized to render the same services under the new Law, provided that they meet the requirements of the General Law in Telecommunications and recorded at the Registry of Operators *ex officio* by the CMT. These operators are subject to the obligations and conditions established by the General Law on Telecommunications and the Services Regulation. In particular, the Services Regulation establishes general obligations, and specific obligations and conditions for operators exploiting public electronic communications networks and for operators providing fixed telephony services to the public.

The companies of the ONO Group are duly registered at the CMT as operators entitled to provide certain electronic communications services and to install and exploit certain electronic communications networks (fixed-line telephony services to the public, leased lines, video on demand, reselling of fixed-line telephony services to the public, data transmission services, such as Internet access, transmission of information, text, image and sound, frame relay and interconnection of local area networks). The registration of the notification to become movil virtual network operator (MVNO) is pending.

The right to provide electronic communications services and to exploit electronic communications networks shall be deemed extinguished upon occurrence of any of the following circumstances:

- (i) Definitive suspension of the activity that shall have to be notified to the CMT.
- (ii) Extinction of the legal personality of the operator.
- (iii) A sanction imposed, after available appeals have been exhausted, by the relevant authority.
- (iv) Failure to notify to the CMT the intention of the operator to continue providing the service or exploiting the network, prior to filing the relevant administrative procedure by means of which the CMT obtains evidence that the operator is effectively not providing any service or exploiting any network.

#### *Interconnection and Access*

In order for our customers to communicate with other operators' customers, we need to interconnect our networks with such other networks. The EU Access Directive of March 2002, within the terms of the Framework Directive, harmonizes the way in which EU Member States regulate access to, and interconnection with, electronic communications networks and associated facilities. Its aim is to establish a regulatory framework, in accordance with internal market principles, for relationships between suppliers of networks and services that will result in sustainable competition, interoperability of electronic communications services and consumer benefits. This Access Directive and the General Law on Telecommunications establish rights and obligations for operators and for undertakings seeking interconnection or access to their networks or associated facilities. The Access Directive sets out objectives for national regulatory authorities with regard to access and interconnection.

According to the General Law on Telecommunications, operators of public electronic communications networks have the right and, when so requested by other operators, the obligation to negotiate mutual interconnection for the provision of electronic communications services to the public in order to guarantee the provision of services and their interoperability.

The Markets and Access Regulation establishes that, unless the parties agree otherwise, interconnection and access agreements must be reached within four months from the date of any request to start negotiations. There shall be no restrictions that would prevent operators to negotiate amongst themselves interconnection or access agreements. In the event the parties do not agree on the terms, the CMT will decide the terms of the interconnection or access agreement. The CMT is also entitled to solve interconnection and access conflicts between operators.

Access and interconnection conditions or obligations imposed on operators shall be objective, transparent, proportional and non-discriminatory.

Interconnection agreements are subject to the supervision of the CMT and to Spanish regulations. The Markets and Access Regulation applies to interconnection, access to public networks and numbering.

The CMT has approved the resolution on call termination on individual public telephone networks provided at fixed location according to the EU Guidelines, in which it declares that some operators (ONO included) have significant market power in this market imposing them, among others, the obligation to have reasonable prices in termination services offered to operators. This means that ONO will be able to determine higher prices for its termination services, breaking the symmetrical prices principle. Telefónica is obliged to publish a reference interconnection offer ("RIO"). The last amendment to the RIO was approved by the CMT on 23 November 2005, and entered into force on December 22, 2005, after being published in the Spanish Official Gazette.

#### *Access to the Local Loop*

Telefónica's wholesale bitstream access was introduced in 1999 and a regulation was enacted in 2000 through the incorporation of two new methods: shared access and local loop unbundling.

At present, access to the local loop is mainly governed by the Markets and Access Regulation and EU Regulation 2887/2000, of December 18, on unbundled access to the local loop.

The retail and wholesale relevant markets have been duly defined by the CMT and certain interconnection and access conditions have been imposed on those operators declared as having significant market power in the relevant market. The CMT has approved the Resolution on wholesale broadband access, defining the market, declaring Telefónica has significant market power and imposing it certain obligations. (the retail minus proceeding has been replaced by cost orientated pricing) Telefónica is still obliged to publish an access to local loop offer, including, among others, the relevant technical and economic conditions.

The last amendment to Telefónica's access to local loop offer was approved by the CMT on May 19, 2005.

#### *Numbering and Operator Selection*

In order to provide telecommunications services, operators need to be furnished with public numbering resources, i.e. the ability to allocate phone numbers among subscribers or users of telephony services in accordance with the applicable, government approved, National Numbering Plan. The CMT has the authority to allocate numbers and must act within a maximum period, currently three weeks, from the date of the relevant application.

The General Law on Telecommunications and the Markets and Access Regulation address operator selection, which refers to the ability of the subscriber or user to select a given operator for all or certain calls and to access the services of any operator interconnected with the operator providing the relevant user with access to the public telephony network. The operator to be used can be chosen ahead of time or on a call-by-call basis. Operators with significant market power in the provision of connection to and use of the public telephony network at fixed locations—currently Telefónica—are obliged to provide operator selection to those operators of fixed telephony services to the public that are interconnected with them. The Government is allowed to impose operator selection obligations on other type of networks.

In August 2001, Circular 1/2001 issued by the CMT entered into force to establish the instructions to implement preselection mechanisms for subscriber lines connected to digital telephony switches for metropolitan calls, long distance and fixed-to-mobile calls. Additionally, as of March 1, 2003, and pursuant to Circular 2/2002 of the CMT, fixed-line public telephony network operators that are obliged to implement operator selection mechanisms are required to offer preselection and selection on a call-by-call basis for metropolitan, long distance and fixed-to-mobile calls to intelligent network numbering (including personal numbering, but excluding collect call numbering) and to paging services. Finally, pursuant to Circular 1/2002, issued by the CMT, Telefónica was obliged to implement preselection mechanisms for subscriber lines connected to analog telephony switches prior to January 31, 2003, the date as of which this form of preselection was required to be available for long distance, metropolitan and fixed-to-mobile calls under the same conditions as preselection offered to subscriber lines connected to digital telephony switches. The CMT has approved other Circulars relating to operator selection issues. All these Circulars shall be deemed

in force as long as they do not contradict the General Law on Telecommunications and the Markets and Access Regulation.

#### *Number Portability*

Under the General Law on Telecommunications and the Markets and Access Regulation, users or subscribers to telephony service to the public have the right to keep their existing telephone numbers when changing operator, service or physical location, or when any of these circumstances occur simultaneously. Operators of public telephony networks and those providing telephony services to the public are obliged to provide users with number portability rights, if so requested, in the terms of the applicable regulations. The General Law on Telecommunications and the Markets and Access Regulation further require that operators share some of the costs associated with this service. According to the Markets and Access Regulation, as of its entering into force, the following types of number portability must be available:

- (i) Change of operator for the provision of fixed telephony services to the public, as long as the service and the geographical location do not change;
- (ii) Change of operator for the provision of mobile telephony services, even in the event of changing the type of mobile telephony service; and
- (iii) Change of operator for special rate services and personal numbering, as long as the service does not change.

The MITC is entitled to approve further regulations establishing new types of number portability and related issues.

Circular of the CMT 2/2004 that entered into force on August 17, 2004 establishes the principles intended to guarantee number portability to users.

#### *Occupancy Rights*

Electronic communications operators have the right to occupy the public domain, benefit from expropriation procedures and be granted rights of way or easements over the property of third parties, subject to certain conditions and insofar as required to deploy networks. The General Law on Telecommunications also provides for the obligation of the authorities to promote operators to enter into agreements for infrastructure sharing and for co-location in public and private property. Should an infrastructure sharing agreement not be reached, the CMT is entitled to solve the conflict.

#### *Payments*

Telecommunications operators are required to make certain payments. Most importantly, they are required to pay to the CMT a maximum annual fee of 0.20% (currently 0.125%) of their gross telecommunications revenue minus certain interconnection, connectivity and other costs related to those revenues, and a separate annual municipal fee of, initially, 1.5% of gross revenue obtained in each Municipality for use of the local public domain, and certain other local fees and taxes.

#### *Telephony Customer Charges*

Telephony operators, other than operators with significant market power, are generally free to fix end-user prices.

However, per the General Law on Telecommunications, the Government Commission for Economic Affairs may, after a report by the CMT, provisionally establish maximum, minimum and fixed prices, or set forth the criteria to establish those, taking into account the actual costs of the services rendered and the existence or not of effective competition in the relevant markets. The Government Commission for Economic Affairs shall have this power until the CMT defines the operators with significant market power, their obligations and the new markets.

During this interim period, prices charged by Telefónica for the provision of fixed-line telephony services and leased lines are based on a model of maximum limits of annual prices, established using as a reference the annual changes in the consumer price index, approved by the Government Commission of

Economic Affairs. On December 30, 2005 the price cap regime for year 2006 approved by the Government Commission of Economic Affairs on December 22, 2005, entered into force. It will remain in force until the CMT defines the operators with significant market power, their obligations and the new markets.

During the first quarter of 2006, the CMT finally completed the analysis of all retail voice markets susceptible to ex ante price regulation (markets 1-6 in the European Recommendation), bringing the former regulatory price cap regime to an end. According to the new regime, whereas call prices will not be regulated, Telefonica's monthly line rental prices will still be subject to a maximum price regime. As from 1st January 2007, the Commission will fix that maximum price according to an IPC-X formula whereby  $X=0$  and IPC refers to the consumer price index published by the European Central Bank. A general provision against anticompetitive prices, whether they refer to call or line rental prices, has also been adopted by the CMT in its decisions on these markets.

#### *Universal Service, Public Service Obligations and Other Obligations of Public Character*

The General Law on Telecommunications, coupled with the Services Regulation provide that electronic communications operators may be requested to provide certain universal services, comply with other public service obligations to be imposed for general interest reasons or with obligations of public character.

Universal service covers a range of electronic communications services which must be provided to all users at a reasonable price, regardless of their geographical location. These include access to the fixed telephony network, including functional access to the Internet, availability of directory information, sufficient provision of public pay phones, and access to fixed telephony for the handicapped. The new General Law on Telecommunications provides that the MITC shall designate the operator(s) entrusted to ensure the universal service. The operator(s) may be different in each region and different services included within the scope of universal service may be provided by different operators. Should different operators be interested in rendering these services, the General Law on Telecommunications provides for a public bidding procedure to designate the operator(s) in charge.

According to the Services Regulation, Telefónica is considered as the sole operator to provide universal service across the whole territory of Spain until December 31, 2007. Other operators, besides Telefónica, may also be required to provide universal service in the future.

The CMT may determine that providing universal service imposes a competitive disadvantage on the operators that provide these services, and that the net cost of these services should be allocated among certain operators in accordance with criteria to be determined by the CMT. The mechanism to compensate for these costs shall be the National Universal Service Fund. Contributions to the National Universal Service Fund shall be made by the operators in accordance with the Services Regulation. It provides that a National Fund for Universal Service will be created and that the costs will eventually be allocated among operators on the basis of gross ordinary revenue. Contributions are required to be proportional to the activity carried out by the relevant operator obliged to contribute to the financing of the universal service and shall be determined by the CMT, pursuant to the rules established in the Services Regulation. Nevertheless the CMT has agreed that no compensation shall be applied to the costs of providing universal service for years 2001 and 2002. The CMT has not yet considered the costs of providing universal service for 2003, 2004 and 2005.

In addition to universal service, the Government may impose other public service obligations on operators to fulfill public safety or national defense. In the same way, it may impose other public service obligations, prior report from the CMT, due to the following reasons: territorial cohesion, extension of use of new technologies and services, to ease communications amongst certain groups with special circumstances, and to ease the availability of those services that imply evidence of the contents of the message sent or of its sending or reception.

In the event of breach by the relevant operator of its public service obligations, prior Government decision, the State Administration is entitled to directly assume the provision of the relevant services or the exploitation of the relevant networks. Additionally, the State Administration is also entitled to directly assume, prior Government decision, the provision of certain electronic communications services or the exploitation of certain electronic communications networks to guarantee public safety and national defense.

## **Regulation of Cable television services**

### *Overview*

Law 42/1995 on Cable Telecommunications ("Cable Telecommunications Law"), formerly governed the exchange of video, audio broadband, and other telecommunications over the cable telecommunications network. To these purposes, according to the Cable Telecommunications Law, Spain was divided into 43 franchise areas in which two operators, Telefónica, and the awardee of the relevant cable telecommunications and television concession—such as ONO—were allowed to provide certain cable telecommunications and cable television services. Concessions were granted in 37 of these franchise areas, although Telefonica, if so requested by it, as happened, was entitled to operate in all of them. The Cable Telecommunications Law was repealed by the General Law on Telecommunications of 1998, except for provisions dealing with cable television, which remained applicable until they were finally superseded by the current General Law on Telecommunications. However, pursuant to the interim regime of the General Law on Telecommunications, certain provisions of the Cable Telecommunications Law remain temporarily applicable.

Pursuant to the General Law on Telecommunications, our former cable television concessions (including those of Auna) have been converted by the CMT into administrative authorizations to provide cable television and radio services, including pay-per-view, in our franchise areas.

Certain minor cable television operators existing prior to the calling of the tenders under the Cable Telecommunications Law may operate in our franchise areas.

At present, and until the relevant regulation is approved, the provision of cable television services is mainly governed by those provisions still applicable of the Cable Telecommunications Law pursuant to the relevant interim provisions of the General Law on Telecommunications, the law commonly referred to as the Law of Television Without Frontiers, the Conditional Access Law of 1997 -temporarily applicable until the relevant regulation is approved, as established by the General Law on Telecommunications- and the relevant resolution converting the former concessions to provide cable television services within our franchise areas into administrative authorizations. After the approval of the regulation that will govern the provision of cable television services, our administrative authorizations to provide cable television and pay-per-view services will be subject to that regulation.

According to a recent amendment to the General Law on Telecommunications, no authorizations for the provision of cable television services will be granted until the relevant regulation that will govern the provision of cable television services is enacted.

For a discussion on the cable television national regulatory authorities, please see "National Regulatory Authorities in Spain" under "Regulation of Electronic Communications Services" above.

### *Obligations*

According to the relevant cable television concession conversion document, as holders of administrative authorizations to provide cable television and pay-per-view services in our franchise areas (including those of Auna), Auna and we are subject, amongst others, to the following obligations:

- to distribute programming provided by independent third party programmers. The relationship between the cable operator and the independent programmers must be freely negotiated by the parties, in accordance with the provisions approved by the relevant Administrations,
- to comply with the rules established in the Law of Television Without Frontiers, regarding, among others, programming, television advertising, teleshopping and sponsorships and programming legislation aimed at protecting children,
- to comply with the EU provisions and national legislation on intellectual property, and
- to comply with obligations on conditional access, on access to certain television and radio services, on broadband television and rebroadcast that may be imposed on the holder of an administrative authorization pursuant to the General Law on Telecommunications. Pursuant to the Services Regulation, Auna and we are still obliged to distribute terrestrial national broadcast channels, regional channels and certain local channels under certain circumstances.

### Concession Payments

Under applicable Spanish regulations, cable television operators are required to make certain payments related to their administrative authorization. In particular, Auna and we are required to pay the CMT an annual fee of 0.1% of our gross income for the provision of cable television and pay-per-view services.

### Termination

Administrative authorizations to provide cable television services will be considered terminated in the event of an express renunciation by the holder, accepted by the CMT, or they may be revoked should the holder breach any of the obligations established in the administrative authorization document or in the laws and regulations governing the provision of cable television services.

## D. Organizational Structure

### Our Areas of Operation

Our business and franchise areas cover approximately 17.6 million homes and around 2.6 million businesses. We now manage our franchises in nine different regional clusters: The Valencia cluster, the Cataluña cluster, the Madrid cluster, the Andalucía cluster, the North-west cluster, the Castilla la Mancha and Murcia cluster, the North cluster, the Baleares cluster and the Canarias cluster. The following table sets out certain information concerning our regional clusters in Spain:

Geographical Area	Total Homes <sup>(1)</sup>	Homes	
		Released to Marketing <sup>(2)</sup>	Total Businesses <sup>(3)</sup>
Valencia .....	2,548,000	1,326,469	329,334
Cataluña .....	3,315,936	574,347	567,019
Madrid.....	2,479,510	888,526	456,175
Andalucía (Western).....	1,463,357	693,310	188,610
Andalucía (Eastern) .....	2,069,305	299,252	275,569
North-west: Castilla y León, Cantabria, Galicia and Asturias .....	1,753,056	722,106	195,757
Castilla-La Mancha, Murcia and Extremadura .....	1,579,479	424,868	203,506
North .....	1,070,112	362,266	152,333
Baleares.....	502,149	169,977	87,024
Canarias .....	851,810	190,414	128,020
<b>Total .....</b>	<b>17,632,714</b>	<b>5,651,535</b>	<b>2,583,347</b>

(1) Total cable homes in each cluster. These figures are derived from the 2001 Spanish national census

(2) Cable homes released to marketing as of December 31, 2005.

(3) Total businesses in each cluster have been obtained from the 2005 businesses central directory published by the National Statistics Institute of Spain (*Instituto Nacional de Estadística—INE*).

**Valencia Cluster.** The Valencia Cluster covers approximately 23,254 square kilometers, with 2.5 million homes and 329,334 businesses and a total population of 4.5 million. The Valencia cluster covers the provinces of Castellón, Valencia and Alicante. The principal cities in the cluster are Valencia, Spain's third largest city with 374,000 homes, Alicante and Castellón de la Plana, each of them capital cities of their respective provinces.

**Cataluña Cluster.** The Cataluña Cluster covers approximately 33,627 square kilometers, with 3.3 million homes and 567,019 businesses and a total population of 6.8 million. The Cataluña cluster covers the provinces of Barcelona, Tarragona, Lérida and Gerona. The principal city in the cluster is Barcelona.

**Madrid Cluster.** The Madrid Cluster covers approximately 8,022 square kilometers, with 2.5 million homes and 456,175 businesses and a total population of 5.8 million.

**Andalucía (Western) Cluster.** The Andalucía (Western) Cluster covers 31,600 square kilometers, with a total of 1.5 million homes and 188,610 businesses and a total population of approximately 3.4 million. The Andalucía (Western) Cluster covers the provinces of Cádiz, Huelva and Sevilla.

**Andalucía (Eastern) Cluster.** The Andalucía (Eastern) Cluster covers approximately 55,991 square kilometers, with 2.1 million homes and 275,569 businesses and a total population of 4.3 million. The Andalucía (Eastern) cluster covers the provinces of Málaga, Almería, Córdoba, Jaén and Granada.

**North-west Cluster.** The North-west Cluster covers approximately 139,724 square kilometers, with 1.8 million homes and 195,757 businesses and a total population of 6.9 million. The North-west Cluster covers the regions of Castilla y León and Cantabria. The main cities in the cluster are Valladolid, Burgos and Santander.

**Castilla-La Mancha and Murcia Cluster.** The Castilla-La Mancha and Murcia Cluster covers approximately 132,409 square kilometers, with 1.6 million homes and 203,506 businesses and a total population of 4.3 million. The Castilla La-Mancha and Murcia Cluster serves the regions of Castilla-La Mancha and Murcia. The main cities are Murcia, Ciudad Real, Cuenca, Guadalajara, Toledo, Albacete, Talavera de la Reina and the port city of Cartagena. The franchise of Castilla-La Mancha was awarded in mid-2003 and we commenced network development in the five provinces within the region of Castilla-La Mancha (other than the city of Albacete) in late 2003 and 2004. We commenced our commercial activity in these provinces during the first half of 2004.

**North Cluster.** The Norte Cluster covers 62,528 square kilometers with a total of 1.1 million homes and 152,333 businesses and a total population of approximately 2.1 million. The Norte Cluster covers the regions of Navarra, La Rioja and Aragón. The principal cities in the cluster are Pamplona, Logroño and Zaragoza.

**Baleares Cluster.** The Baleares Cluster covers approximately 4,992 square kilometers, with 0.5 million homes and 87,024 businesses and a total population of 0.9 million. The Baleares Cluster covers the Island of Mallorca.

**Canarias Cluster.** The Canarias Cluster covers approximately 7,447 square kilometers, with 0.9 million homes and 128,020 businesses and a total population of 1.9 million. The Canarias Cluster covers principally the cities of Santa Cruz and Las Palmas on the islands of Tenerife and Gran Canaria.

## **E. Property, Plant and Equipment**

### **Network Architecture**

#### *Local Networks*

Our local networks have been designed using a high-speed fiber-optic based system, capable of providing a full range of analog and digital services. The local networks are currently capable of supporting telephony, broadband Internet and cable television services. All of our services are provided through the same distribution system thus creating economies of scale. Fiber routing is designed to provide route diversity to the fiber junctions, or nodes, thereby protecting against loss of service resulting from cable damage.

Our fiber-optic ring architecture is used to transport signals from local operations centers to primary nodes, or hub points, serving 20,000 to 60,000 homes in urban areas. The local operations centers generally house a cable television head-end, a digital regional head-end and a telephony and data switch. The head end assembles the cable television signals for transmission to the customers. The primary nodes

are in turn connected to secondary nodes along a secondary fiber-optic ring network. These secondary nodes are optical distribution points each serving around 2,000 homes in Old ONO franchises and between 2,000-6,000 homes in Auna franchises which distribute fiber to the home terminal nodes. The home terminal nodes serve 500 homes.

For telephony, the final points for distribution to homes and small businesses are cross-connect boxes from which the final connection to a customer's home is made using twisted-pair copper wire. The terminal nodes transform the optical signals back into electrical format and transmit them onwards on coaxial cable or copper pairs to the customer's premises. Cross-connect boxes are connected to the terminal nodes by twisted pair copper wire.

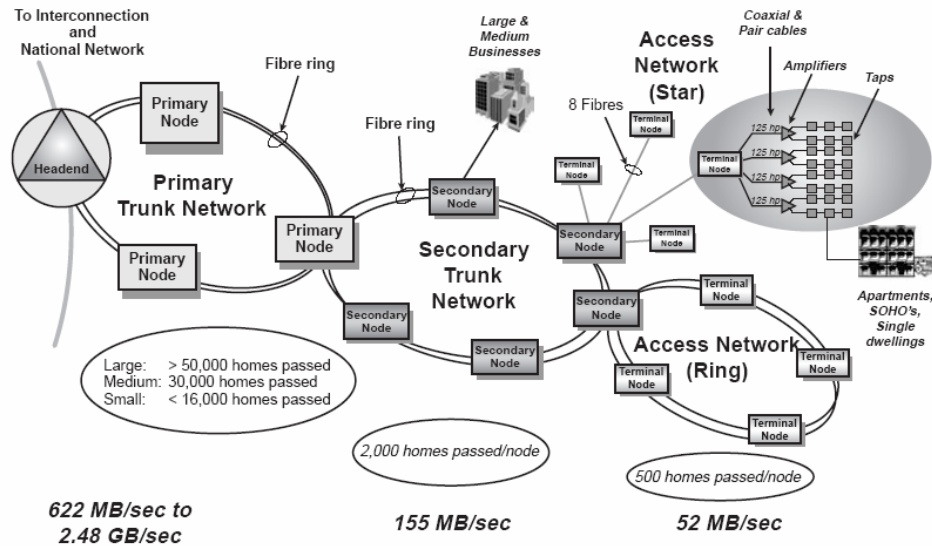
The telephony network has been designed so that, as penetration and traffic increases, an incremental upgrade of the equipment will enable additional capacity to be easily provided at minimal cost. The entire network's telephony equipment is powered by battery backed-up power supplies, in order to meet the current legal requirement to provide at least 12 hours of service in the event of a power failure.

Regarding broadband Internet and cable television services, coaxial cables are used to transport the signals to homes, and amplifiers are used to boost the signal levels. Customer taps are used to serve individual dwellings. These typically serve four or eight homes per tap. Amplifiers are mounted in sealed units, generally on the façades of buildings. The final connection to the home, known as the drop, generally uses a combination of coaxial and copper pair cable (except for Castilla y León and some municipalities where we use coaxial cable, with voice over IP Technology for the telephony service distribution). The coaxial part carries the broadband and cable television signals both to and from homes. Two copper pairs are also incorporated in each drop to allow for second telephony lines. The networks are constructed with excess fiber and duct capacity in order to allow for future upgrades.

The broadband Internet and cable television networks use a hybrid fiber-coaxial transmission system. The system is broadband and operates over a wide frequency. The forward path uses the range from 86 megahertz to 862 megahertz, and is capable of carrying voice, data, video and television channels. The segment up to 630 megahertz is currently used for broadband Internet and analog cable television services and the remaining 232 megahertz of capacity is used or reserved for digital television, VoD and future digital services. Once we have migrated all of our television customers to our digital television services, we will reuse the analog segment for other services. This network is also designed to support reverse path operations on bandwidths up to 65 megahertz allowing interactivity between individual homes and the head-ends.

The digital television system collects all contributions centrally in Spain (except for local channels which are inserted locally), digitizes the content and distributes it (via our national backbone network) to the regional head-ends, which act as the insertion points of the digital contents into the metropolitan network. The analog cable television service is distributed through an analog platform with head-ends located in each of our franchise areas. Unlike with the digital service, the programming material is collected at each head-end (not centrally), reconfigured to meet our specifications, and transmitted through optical fibers.

The diagram set forth below provides a high level, graphical depiction of our local network topology:



As a result of the Auna Acquisition, we currently have two digital head-ends in Madrid. To the extent feasible, we are planning to reduce the number of the digital head-ends to one as part of the integration and transformation process.

To complement Auna's main access network which is similar to our Old ONO's infrastructure, Auna deployed ULL in order to complete coverage in those areas where the deployment of own infrastructure was not possible (including Old ONO franchises). Currently, we connect more than 100 of Telefónica's switching points with our own access equipment.

Auna also has an extensive fixed wireless network, using wireless point-to-point and optical fibre technologies.

Point-to-multipoint wireless access consists of a wireless connection between several access points and one central base station, whereas point-to-point wireless access involves a connection between two access points.

### Backbone Networks

Old ONO national backbone network has been augmented with a national IP network, which serves as the basis for our interactive digital television and high-speed Internet services. Our network consists of 12 nodes connected through high capacity circuits based on our DWDM national network. The IP network also has MPLS capability, which allows for the provision of a wide range of services and in particular better support for business services. It also makes the network more secure, easier to expand and less costly to operate, in addition to making it simpler to offer value added business services such as virtual private networks.

Auna's national transmission network has approximately 9,500 kilometers of owned (either owned or subject to fully prepaid long-term leases) and 5,500 kilometers of leased fiber optic transport cables. Our main providers of dark fiber are Spanish utility companies (Endesa, Iberdrola, REE, Unión Fenosa and Gas Natural).

### Construction and Equipment Suppliers

In Old ONO franchises, we work with Ferrovial, one of Spain's leading construction companies, and with several local Spanish construction companies (Enditel, Seirt, Croning, Elecnor), for the construction, commissioning and delivery of our networks.

In Old ONO franchises, CH2MHill oversees the construction contractors and is responsible for detailed street-by-street network design, as well as the overall management of the construction program. When a construction company completes a specified portion of the network, CH2MHill conducts a final inspection with a view to ensuring that this portion is built correctly and in accordance with our engineering specifications and either accepts or rejects the constructed portion on our behalf. Auna had a different model

where construction contractors were responsible for detailed network design, civil works, equipment installation and activation of our local networks. A different company oversaw the construction contractors and was responsible for the overall management of the construction program. We expect to adopt the ONO construction model in Auna during 2006.

In Old ONO franchises, we rely mainly on Alcatel for the supply of electronic equipment, including switches, synchronous digital hierarchy access equipment, coaxial and fiber cables, cable television transmission equipment and optical receivers. Alcatel is also responsible for commissioning Old ONO telecommunications equipment. The cable television amplifiers are from C-Cor (formerly Philips). Old ONO digital head-end was supplied by Motorola, Harmonic and Cisco. Old ONO set-top boxes (both analog and digital) are currently supplied by Motorola, while other suppliers, including Pace, may equip us in the future depending on the requirements of future services.

In the Auna franchises, Alcatel, Siemens, and Lucent provided transmission and access multiplexer electronic equipment. Alcatel also provides us the distribution metroethernet network. Auna's TV platforms are Tandberg for digital service and Motorola for analog service. HFC hubs, final nodes and amplifiers come from C-Cor and Scientific Atlanta and the set-top boxes are supplied mainly by ADB. Auna's voice switching providers are Italtel and Lucent, while Cisco provides data switching (IP and ATM).

Our Internet service provider software is provided by, among others, Sun Microsystems, Hewlett Packard, EMC2 and Cisco, and our cable modem equipment is supplied by Motorola, US Robotics and Cisco, among others. The construction contractors are responsible for all civil works, equipment installation and activation of our local networks.

### **Environmental Matters**

We are subject to a variety of laws and regulations relating to land use and environmental protection. While we could incur costs, such as clean-up costs, fines and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws or regulations, we believe we substantially comply with the applicable requirements of such laws and regulations and follow the necessary procedures to manage environmental risks.

### **Properties**

We lease certain properties for administrative and sales offices, hubs, stores, switches and head-end sites and warehouses. A significant portion of the properties are used for both administrative and technical purposes. Our network operations centers are located in Madrid and Barcelona and our call centers are located in Valencia, Barcelona, Sevilla, Madrid and Valladolid. We believe that our properties are suitable and adequate for the purposes for which they are intended, however, we intend to streamline our property portfolio as part of the integration and transformation process.

### **F. Legal Proceedings**

We are engaged in litigation arising in the ordinary course of our business. This litigation includes litigation relating to the size of the annual fee payable for the use of the public domain. We do not believe that the adverse determination of any such pending litigation could have a material adverse effect on our business or financial condition.

## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion is based on the audited consolidated financial statements and the related notes included for the years ended December 31, 2004 and 2005 of Cableuropa ("ONO"). For comparison purposes, we include the audited consolidated financial statements for the year ended December 31, 2003 of Cableuropa ("ONO"). The results of the Auna Group have been included since November 2005, the date of Auna Acquisition. Our results for 2003 and 2004 do not include results for Auna. Our "actual" results for 2005 include consolidated results of Auna.

Additionally, and for comparison purposes only, certain information on operating and financial data of Cableuropa excluding any effect of the Auna Acquisition ("Old ONO") is shown as of and for the year ended December 31, 2005. For the convenience of the reader, certain operating data of Auna are shown on standalone basis.

You should read the following information together with the items "Risk Factors" and our Consolidated Financial Statements and the related notes included elsewhere in this Report.

### A. Operating Results

#### Overview

In November 2005, we completed the Auna Acquisition, becoming the leading alternative provider of telecommunications, broadband Internet and cable television services in Spain. In addition, our parent company, GCO, transferred Retecal to Cableuropa with accounting effect from January 1, 2005. Both the Auna Acquisition and the acquisition of Retecal had significant impacts on our results of operations and will continue to impact our results of operations going forward.

#### Factors Affecting Our Business during the Periods under Review

Our residential services accounted for 82% of our total revenues for the twelve months ended December 31, 2005; business and other services accounted for the remaining 18% of our total revenues for the same period. This proportion will change in the future as the results contributed from Auna are accounted for a full year period. The number of customers and the percentage change are presented below:

Data in units	2003	2004			2005	% change
			Actual	Old ONO <sup>(1)</sup>	Auna	04/05
Cable	581,345	676,858	1,660,156	882,723	777,433	145.3%
Other direct access	-	-	110,885	-	110,885	
<b>Residential direct access customers</b>	<b>581,345</b>	<b>676,858</b>	<b>1,771,041</b>	<b>882,723</b>	<b>888,318</b>	<b>161.7%</b>
<b>Residential indirect access customers</b>	<b>-</b>	<b>-</b>	<b>375,707</b>	<b>-</b>	<b>375,707</b>	
Direct access customers	13,133	17,369	77,084	25,995	51,089	na
Indirect access customers	-	-	44,573	-	44,573	
<b>Business customers</b>	<b>13,133</b>	<b>17,369</b>	<b>121,657</b>	<b>25,995</b>	<b>95,662</b>	<b>na</b>

<sup>(1)</sup> Old ONO operating data. Figures contributed by Auna are not included.

The following table sets forth certain information with respect to our residential cable services and the percentage change from period to period for each of the periods indicated:

Data in units, except if otherwise stated

	2003	2004	Actual	Old ONO <sup>(1)</sup>	2005 Auna	% change 04/05
<b>Residential Cable Services</b>						
HRTM <sup>(2)</sup>	1,743,266	2,038,172	5,651,678	2,901,378	2,750,300	177.3%
Customers	581,345	676,858	1,660,156	882,723	777,433	145.3%
Penetration <sup>(3)</sup>	33.3%	33.2%	29.4%	30.8%	29.0%	(3.8 p.p)
Churn <sup>(4)</sup>	13.7%	16.1%	18.6%	16.6%	20.7%	2.5 p.p.
ARPU (€) <sup>(5)</sup>	54.1	54.6	51.9	53.6	50.3	(4.9%)
RGUs <sup>(6)</sup>	1,082,715	1,263,260	3,129,454	1,684,565	1,444,889	147.7%
RGUs per customer	1.86	1.87	1.89	1.91	1.86	1.1%

<sup>(1)</sup> Old ONO data. Figures contributed by Auna are not included.

<sup>(2)</sup> Homes released to marketing means a home to which we can provide either telephony, Internet or cable television service within approximately four days, which occurs after the customer tap and drop have been installed.

<sup>(3)</sup> Penetration is the percentage of customers over homes released to marketing in our franchise areas, and with respect to any particular service, penetration is the percentage of RGUs of that service over homes released to marketing in our franchise areas.

<sup>(4)</sup> Churn means the percentage obtained by dividing the number of customers who cease to receive any of our services (either voluntarily or involuntarily) in the last quarter of the relevant period by the average total number of customers during that quarter, multiplied by four. The average number of customers for any period is calculated by adding the number of customers at the beginning of the period to the number of customers at the end of the period and dividing by two.

<sup>(5)</sup> ARPU is the monthly average revenue per user, and is calculated by dividing total revenues generated from our telephony, Internet and cable television services provided to customers that are directly connected to our network in the last quarter of the relevant period by the average number of customers in that quarter, the result of which is divided by three. The average number of customers for any period is calculated by adding the number of customers at the beginning of the period to the number of customers at the end of the period and dividing by two.

<sup>(6)</sup> RGUs are revenue generating units where each customer is counted as a revenue generating unit for each service for which such customer subscribes; regardless of the number of services that customer receives from us. Thus a single customer who receives telephony, Internet and cable television services from us would account for three RGUs.

**Customers.** Our residential customer base (which includes small office and home office customers) increased by 161.7% and 16.4% in 2005 and 2004, respectively, reaching 1,771,041 residential direct access customers as of December 31, 2005. The growth in residential customers reflects four main factors: (i) the inclusion of the Auna customer base in 2005, which amounts to 888,318 customers as of December 31, 2005; (ii) the inclusion of the Retecal customer base in 2005, which amounts to 106,907 customers as of January 1, 2005; (iii) the increase in the number of homes passed and (iv) the increase in the percentage of homes passed that have been released to marketing. We have continued to build-out our network and to increase the penetration of our services in areas already built out. In addition, the growth in customers reflects the improved efficiency with which we are able to release to marketing the homes passed and our focus on making our services available to more customers. We continue to focus on improving our customer service and enhancing our service offerings to existing and new customers in an effort to manage our customer churn rate. Our churn rate increased at the end of 2004 and in 2005 primarily due to the impact of increased competition, price increases and the integration of Retecal and Auna.

Our focus on marketing to small and medium sized enterprises ("SMEs") coupled with the acquisition of Retecal and Auna, resulted in an increase in our business customer base to 121,657 customers as of December 31, 2005. The acquisition of Retecal and Auna contributed 3,831 and, 95,662 business customers, respectively.

**ARPU.** ARPU is a measure we use to evaluate how effectively we are obtaining revenues from each of our customers. Historically we presented ARPU on both a blended basis and separately for each of our residential product groups. We have, however, discontinued reporting ARPU for each of our products due to the increasing take up of bundled services by our customers. ARPU for residential cable services decreased by 4.9% to €51.9 for the fourth quarter of 2005 from €54.6 for the fourth quarter of 2004. During the period from 2003 to 2004, ARPU consistently increased from quarter to quarter. The decrease in ARPU during 2005 was due to the incorporation of Retecal and Auna figures and an increase in competition.

The following are the key factors affecting our results during the periods under review:

#### **Acquisition of Retecal.**

GCO, our sole shareholder, acquired 61% of Retecal, the exclusive cable operator in the region of Castilla y León, in February 2004 and completed the purchase of the remaining shares of Retecal in October 2004. In March 2005, Cableuropa carried out a capital increase entirely subscribed by GCO in exchange for the shares GCO held in Retecal (by contributing its shares representing 100% of the common stock of Retecal). The transfer of Retecal to Cableuropa has been given accounting effect from January 1, 2005.

At acquisition, Retecal contributed around 500,000 homes passed and 100,000 customers to ONO. This has impacted our revenues and number of customers during the year ended December 31, 2005. However, because Retecal, at the time of the acquisition, operated at lower ARPU, RGUs per customer and penetration, the incorporation of Retecal figures negatively impacted these performance indicators during the 2005 period. Since the acquisition, we have been actively integrating Retecal into our operations and implementing initiatives to improve its operating performance. We believe that our experience gained in this integration process will assist us in the integration and transformation of Auna.

The following table includes, for comparable purposes, certain information on Retecal for the year ended 2004 and the combined information adding Retecal and Cableuropa data:

<i>Data in units</i>	<b>2004</b>	<b>2004</b>	<b>2004</b>	<b>% combined</b>
	<b>Retecal</b>	<b>Cableuropa</b>	<b>Cableuropa+Retecal</b>	<b>growth to</b>
				<b>Cableuropa</b>
<b>Homes released to marketing</b>	<b>512,131</b>	<b>2,038,172</b>	<b>2,550,303</b>	<b>25.1%</b>
<b>Customers</b>				
Residential direct access	106,907	676,858	783,765	15.8%
Business	3,831	17,369	21,200	22.1%
<b>Penetration</b>	<b>20.9%</b>	<b>33.2%</b>	<b>30.7%</b>	<b>(2.5 p.p.)</b>
<b>Residential RGUs</b>				
Telephony	75,659	622,275	697,934	12.2%
Internet	52,933	271,489	324,422	19.5%
Cable TV	75,988	369,496	445,484	20.6%
<b>Total RGUs</b>	<b>204,580</b>	<b>1,263,260</b>	<b>1,467,840</b>	<b>16.2%</b>

#### **Effect of the Auna Acquisition**

The Auna Acquisition in the fourth quarter of 2005 caused the size of our group of companies to more than double in size. As a result, our future financial condition and results of operations will not be directly comparable to our past results of operations.

Although a substantial portion of the debt we incurred under the New Senior Facility was used to refinance amounts outstanding under our former 2005 Senior Bank Facility, we also incurred additional debt to finance the Auna Acquisition. As a result, our future results of operations will be significantly affected by the interest expense associated with this additional indebtedness, which will be substantially higher than in historical periods. In addition, as a result of the repayment of amounts outstanding under our former 2005 Senior Bank Facility, we wrote off the capitalized fees and expenses associated with the drawdown of the 2005 Senior Bank Facility during the fourth quarter of 2005.

We expect to incur substantial additional indebtedness in the future. For example, we expect to incur additional indebtedness to fund the Deferred Acquisition Payment in 2008. Also, we expect to incur additional indebtedness in connection with the integration and transformation of Auna's businesses and the build-out of our networks. We expect to incur all of the foregoing indebtedness under our New Senior Facility.

In addition, the terms of the New Senior Facility required us to redeem all outstanding 2011 Notes on or prior to December 31, 2006, and we issued a notice of redemption for such notes on December 22, 2005, specifying a redemption date of February 15, 2006. In 2004, we recognized as an extraordinary item the premium payable in connection with the 2011 Notes Redemption. Accordingly, we did not recognize any material exceptional items in February 2006 in connection with the 2011 Notes Redemption.

In anticipation of the integration and transformation process following the Auna Acquisition, our preliminary allocation of the purchase price for the Auna Acquisition includes estimated adjustments totaling €244.7 million for restructuring liabilities.

We carried out an assignment of the purchase price to the assets and liabilities of the Auna group. As a result, a difference between the book value of certain of Auna's assets and its net realizable value gave rise to recoverable and unrecoverable losses that have been recorded as an extraordinary expense in Auna. The main reasons for these differences are the different commercial and technological strategies followed by Old ONO and Auna. These different strategies affect the value of the assets since Cableuropa will, among others, abandon certain lines of activity, replace certain assets due to technological decisions, homogenize accounting policies and restructure Auna processes.

This analysis gave rise to a Negative Goodwill of €262.9 million that sits on our balance sheet as of December 31, 2005.

Additionally, Auna historically had a different business mix and operated at lower margins than us. We expect the combined group's margins to gradually improve as we complete the integration and transformation process. In addition, our historical growth rates for subscribers, revenue and EBITDA are expected to decline as a result of the enlarged size of the group and the maturing of our business.

## Results of Operations for the Years Ended December 31, 2003, 2004, and 2005

The following table sets forth certain summary financial and operating information and the percentage change from period to period for each of the periods indicated.

<i>Data in € million</i>	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
<b>Revenues</b>	<b>358.6</b>	<b>443.4</b>	<b>773.9</b>	<b>592.4</b>	<b>23.6%</b>	<b>74.5%</b>
Operating expenses	(363.2)	(372.8)	(762.6)	(564.4)	2.6%	104.6%
<b>Operating profit/(loss)</b>	<b>(4.6)</b>	<b>70.6</b>	<b>11.2</b>	<b>28.0</b>	<b>na</b>	<b>(84.1%)</b>
Net financial expense	(130.2)	(104.0)	(134.4)	(126.3)	(20.1%)	29.2%
Amortization of goodwill	(13.4)	(10.2)	(2.6)	-	(23.9%)	(74.5%)
Net extraordinary income /(loss)	298.2	(61.2)	(417.6)	(480.6)	(120.5%)	582.4%
<b>Loss before income tax</b>	<b>150.0</b>	<b>(104.8)</b>	<b>(543.4)</b>	<b>(579.0)</b>	<b>(169.9%)</b>	<b>na</b>
Income tax credit/(expense)	(53.0)	21.5	76.0	55.7	(140.6%)	253.5%
<b>Loss before minority interests</b>	<b>97.0</b>	<b>(83.3)</b>	<b>(467.4)</b>	<b>(523.2)</b>	<b>(185.9%)</b>	<b>na</b>
Loss attributed to minority interest	—	2.2	0.2	—	—	na
<b>Net loss</b>	<b>97.0</b>	<b>(81.2)</b>	<b>(467.2)</b>	<b>(523.2)</b>	<b>(183.7%)</b>	<b>na</b>

<sup>(1)</sup> Data from Cableuropa's audited financial statements for the year ended December 31, 2005 on an unconsolidated basis.

## 1. Revenues

ONO's revenues are derived from residential direct access services (which comprise revenue from individual service offerings or a combination of telephony, Internet and cable television services), indirect access services to residential customers, business services (which comprise voice and data services, to SME business customers and services provided to large corporations and public entities, and wholesale and operators services, which principally comprise interconnection charges to other telecom operators, carrier services and leased circuits to other operators).

Our revenues increased during the periods under review. The following table sets forth our revenues derived from residential services and business services and the percentage change from period to period for each of the periods indicated.

<i>Data in € million</i>	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
Residential revenues	329.3	404.5	632.7	533.8	22.8%	56.4%
Business revenues & others	29.3	38.9	141.2	58.6	32.8%	263.0%
<b>Total revenues</b>	<b>358.6</b>	<b>443.4</b>	<b>773.9</b>	<b>592.4</b>	<b>23.6%</b>	<b>74.5%</b>

<sup>(1)</sup> Data from Cableuropa's audited financial statements as of December 31, 2005 on an unconsolidated basis.

### a) Residential cable services

*Data in units, except if otherwise stated*

	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	Auna	04/05
<b>Residential</b>						
HRTM	1,743,266	2,038,172	5,651,678	2,901,378	2,750,300	177.3%
Customers	581,345	676,858	1,660,156	882,723	777,433	145.3%
Penetration	33.3%	33.2%	29.4%	30.8%	29.0%	(3.8p.p)
Churn	13.7%	16.1%	18.6%	16.6%	20.7%	2.5 p.p.
ARPU (€)	54.1	54.6	51.9	53.6	50.3	(4.9%)
RGUs	1,082,715	1,263,260	3,129,454	1,684,565	1,444,889	147.7%
RGUs per customer	1.86	1.87	1.89	1.91	1.86	1.1%

<sup>(1)</sup> Old ONO data. Figures contributed by Auna are not included.

Homes released to marketing increased by 177.3% to 5,651,678 in 2005 mainly due to the Auna Acquisition, which contributed 2,750,300 homes released to marketing. Old ONO increased its homes released to marketing in 2005 by 42.4 %, reaching 2,901,378 homes. Penetration decreased to 29.4% as of December 31, 2005, as compared with 33.2% as of December 31, 2004. The decrease in penetration relates to the increase in the number of homes released to marketing exceeding the growth of the customer base.

Total cable customers increased by 145.3% to 1,660,156 in 2005. Old ONO increased by 30.4% its residential cable customer base reaching 882,723 customers at the end of 2005.

The majority of ONO customers take a bundle service from us. This has typically been one of our telephony and television bundles, but increasingly we are seeing more customers taking a full triple play of services from us by adding one of our broadband internet access options. At the end of 2005, 26% of Old ONO customers were taking three services from us compared to 20% at the end of 2004. Our focus on bundling offers also brought an improvement in RGUs per customer in both Old ONO and Auna, reaching a combined 1.89 as at December 31, 2005. In Old ONO, this ratio reached 1.91. The total number of services (or revenue generating units ("RGUs")) was 3,129,454 at the end of 2005 up from 1,263,260 at the end of 2004, representing an increase of 147.7%. Old ONO increased by 33.4% its RGUs base reaching 1,684,565 services at the end of 2005.

ARPU for residential cable services in ONO was €51.9 in the fourth quarter of 2005. The decrease in ARPU during 2005 was due to the incorporation of Retecal and Auna figures and to an increase

in competition. Old ONO ARPU decreased by 1.8% to €53.6 for the fourth quarter of 2005 from €54.6 for the fourth quarter of 2004, reflecting that the increase in RGUs per customer, was outweighed by (i) the price erosion as a result of the higher competition in the telecommunications market resulting from new operators unbundling Telefónica's local loop to provide double play telephony and broadband Internet services and (ii) the inclusion of Retecal, which historically had lower ARPU levels.

Revenues derived from our residential services increased during the periods under review. The principal factors behind the increase in our revenues have been the substantial increase in our residential customer base due to the continued build-out of our network, the stability in penetration, slight increase in prices for some services and the introduction of new higher value services.

*Telephony.* Our residential telephony revenues comprise monthly fees for line rental, usage charges, initial connection charges and fees for other telecommunications services, including charges for additional value added services. The following table sets forth certain information with respect to our residential telephony services and the percentage change from period to period.

*Data in units, except if otherwise stated*

	2003	2004	Actual	Old ONO <sup>(1)</sup>	2005 Auna	% change 04/05
<b>Telephony services:</b>						
Customers	544,271	622,275	1,446,013	770,107	675,906	132.4%
<i>Proportion of total customers</i>	<i>93.6%</i>	<i>91.9%</i>	<i>87.1%</i>	<i>87.2%</i>	<i>86.9%</i>	<i>(4.8 p.p.)</i>
Penetration	31.2%	30.50%	25.6%	26.5%	24.6%	(4.9 p.p.)

<sup>(1)</sup> Old ONO data. Figures contributed by Auna are not included.

During 2005, our number of telephony customers grew from 622,275 to 1,446,013, an increase of 132.4%. Old ONO telephony customers increased by 23.8% reaching 770,107 customers at the end of 2005. This increase is partially due to the acquisition of Retecal that contributed 76,000 telephony customers as of December 31, 2004. Telephony continues to account for the largest portion of our RGUs. At the end of 2005, around 87% of all of our cable customers take this service from us.

Telephony customers as a proportion of total customers in Old ONO decreased its share to 87.2% in 2005 from 91.9% in the previous year. Penetration declined by 4.9 pp in 2005 to 25.6%, following the overall trend of the residential customer base, mainly due to the incorporation of Retecal and the increased levels of competition and churn.

Residential telephony customers increased by 14.3% in 2004. The increase in 2004 primarily reflects the increase in our total residential telephony customer base as we continued to deploy our network.

*Internet.* Revenues from Internet services are derived mainly from fixed monthly fees and sales of cable modems. The following table sets forth certain information with respect to our Internet services and the percentage change from period to period.

*Data in units, except if otherwise stated*

	2003	2004	Actual	Old ONO <sup>(1)</sup>	2005 Auna	% change 04/05
<b>Internet services:</b>						
Customers	199,066	271,489	825,810	441,792	384,018	204.2%
<i>Proportion of total customers</i>	<i>34.2%</i>	<i>40.1%</i>	<i>49.7%</i>	<i>50.0%</i>	<i>49.4%</i>	<i>9.6 p.p.</i>
Penetration	11.4%	13.4%	14.6%	15.2%	14.0%	1.2 p.p.

<sup>(1)</sup> Old ONO data. Figures contributed by Auna are not included.

Internet customers increased by 204.2% in 2005 to reach 825,810 customers as of December 31, 2005, including 384,000 customers contributed by Auna and 53,000 by Retecal. Our residential Internet penetration increased significantly to 14.6% in 2005 from 13.4% in the previous year.

In Old ONO, Internet customers as a proportion of total customers increased by 9.9 pp to 50% in 2005 and penetration increased slightly by 1.8 pp in the same period to reach 15.2%.

We expect our penetration for this service to continue to increase in the future. We offer our customers in Old ONO franchises speeds of up to 4 Mbps and of up to 2 Mbps in Auna's areas. We are

currently in the process of upgrading our network capabilities in Auna's areas to match the characteristics of the portfolio offered in Old ONO's areas.

*Cable Television.* Our cable television revenues are derived mainly from fixed fees, such as monthly subscription fees for basic and premium services, set top box rental charges and variable fees for pay per view services. The following table sets forth certain information with respect to our cable television services and the percentage change from period to period.

*Data in units, except if otherwise stated*

	2003	2004	Actual	Old ONO <sup>(1)</sup>	2005 Auna	% change 04/05
<b>Television services:</b>						
Customers	339,378	369,496	857,631	472,666	384,965	132.1%
<i>Proportion of total customers</i>	<i>58.4%</i>	<i>54.6%</i>	<i>51.7%</i>	<i>53.5%</i>	<i>49.5%</i>	<i>(2.9 p.p.)</i>
Penetration	19.4%	18.1%	15.2%	16.3%	14.0%	(2.9 p.p.)

<sup>(1)</sup> Old ONO data. Figures contributed by Auna are not included.

Cable television customers increased by 132.1% in 2005 to reach approximately 857,631 customers as of December 31, 2005, including 384,965 customers contributed by Auna. Total penetration of cable television services decreased in 2005 by 2.9 pp to 15.2% penetration.

Cable television customers as a proportion of total customers, in Old ONO, decreased 1.1 pp to 53.5% from 54.6% and penetration decreased by 1.8 pp to 16.3% mainly due to the increased levels of churn and the rapid deployment of our network increasing the homes released to marketing base.

During 2004 our television customers increased by 8.9% to 369,496 customers. Total penetration of cable television services declined slightly to 18.1% as of December 31, 2004 as compared to 19.5% as of December 31, 2003.

#### **b) Other residential direct access services**

Other direct access services, which are contributed by Auna in its entirety, include services offered through full or partial unbundling of Telefónica's local loop, power line communications, etc. These services provide us with revenues from monthly fees from telephony and broadband Internet services and usage charges from telephony services. As of December 31, 2005 we offer these services to 110,885 customers.

We do not currently offer TV services to our ULL customers and most of these customers only subscribe to telephony services. ARPU for ULL customers is, therefore, significantly lower than for cable customers.

#### **c) Residential indirect access services**

We currently provide indirect access telephony services to residential customers. This customer base has been contributed by Auna in its entirety. Residential indirect access revenues mainly comprise usage charges from telephony services.

As of December 31, 2005, we had approximately 376,000 residential indirect access customers. We expect a negative trend in this business line in the next years as a consequence of (i) the competitive environment in the Spanish telephony market, and (ii) our focus on our direct access business.

## d) Business Services & Others

<i>Data in units</i>	2003	2004			2005	% change
			Actual	Old ONO <sup>(1)</sup>	Auna	04/05
Business customers:						
Direct access	13,133	17,369	77,084	25,995	51,089	343.8%
Indirect acces	-	-	44,573	-	44,573	
<b>Total customers</b>	<b>13,133</b>	<b>17,369</b>	<b>121,657</b>	<b>25,995</b>	<b>95,661</b>	<b>600.4%</b>

(1) Old ONO data. Figures contributed by Auna are not included.

ONO's business customers and revenues increased by 600.4% and 263% in 2005, respectively, mainly as a result of the acquisition of Auna. Our business revenues amounted to €141 million compared to €39 million achieved in the previous year. At the end of 2005 we had 121,656 business customers of which approximately 77,000 were direct access business customers.

In Old ONO franchises we experienced an increase of 53% in the business customer base during 2005 to reach approximately 26,000 business customers as of December 31, 2005. In 2004, our business customers increased to 17,369 from 13,133 as of December 31, 2003.

The increase in revenues from business services during the year ended December 31, 2004 principally reflects the increase in our business services customer base as a result of the continued development of our network and an increased focus on acquiring small and medium sized enterprise customers.

**Wholesale & operators services.** Historically, wholesale services did not represent a significant part of Old ONO's revenues and, accordingly, are not reported separately from our business services division. In the case of Auna, wholesale services represent an important revenue stream and comprise a separate division, with Auna benefiting from a nationwide radio network to supply services to large and wholesale customers. Revenues from wholesale & operators services are derived from carrier services, voice traffic services, leased and dedicated lines and ISP solutions, provided to other telecommunications operators and from the provision of intelligent network services.

## 2. Operating expenses

The following table sets forth our operating expenses and the percentage change for the periods indicated:

<i>Data in € million, except if otherwise stated</i>	2003	2004			2005	% change
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
Cost of services .....	119.0	127.9	226.0	159.3	7.5%	76.7%
Selling, general and administrative .....	152.7	163.2	302.9	206.6	6.9%	85.6%
Cost capitalized as property and equipment .....	(15.2)	(19.1)	(30.6)	(22.5)	25.7%	60.2%
Depreciation and Amortization .....	106.7	100.8	264.4	221.0	(5.5%)	162.3%
<b>Total operating expenses .....</b>	<b>363.2</b>	<b>372.8</b>	<b>762.6</b>	<b>564.4</b>	<b>2.6%</b>	<b>104.6%</b>

(1) Data from Cableuropa's audited financial statements for the year ended December 31, 2005 on an unconsolidated basis.

In 2005, our operating expenses increased by 104.6% to €762.6 million, mainly as a consequence of : (i) the effect of the Auna Acquisition, (ii) the results of Retecal from January 1, 2005 and (iii) the growth of our business.

In 2004, our net operating expenses increased by 2.6% to €372.8 million as compared with €363.2 million during the year ended December 31, 2003. The reduced rate of growth of our operating expenses, albeit the growth experienced in our business, reflects our continued efforts to control operating expenses and reduce cost of services as a proportion of revenue.

*Cost of services* principally consists of interconnection and backbone network costs for telecommunications services, Internet connectivity costs, the cost of the cable modems, fiber, circuit and duct renting expenses and programming fees for cable television programming services.

Interconnection costs for telephony services are generated by calls made by our customers that terminate outside our network. Internet connectivity costs mainly consist of fees for the bandwidth used for our Internet transit outside of Spain. Cable television programming fees consist primarily of fees paid to television content owners to distribute their cable television content and fees paid to distribute movies and soccer on a pay-per-view basis.

Our cost of services increased as a percentage of total revenues to 29.2% for the year ended December 31, 2005 as compared to 28.8% for the previous year, mainly due to the Auna Acquisition, which generally experiences lower margins than Old ONO. As part of our transformation process we have identified specific projects to improve the overall level of gross margin. In Old ONO, during 2005 the cost of services represented 26.9% of revenues as compared to 28.7% for the previous year. The reduced rate of growth reflects Old ONO continued efforts to reduce cost of services as a proportion of revenue.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased year over year but declined as a percentage of total revenues. As a percentage of total revenues, these expenses were 39.1% in 2005 (34.8% for Old ONO), 36.8% in 2004 and 42.6% in 2003. The continued reduction in selling general and administrative expenses as a percentage of revenues reflects our focus on cost management despite the continued expansion of our business during the periods under review.

	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
Wages and salaries (staff costs)	14.2%	12.8%	11.4%	12.5%	(1.4 p.p.)	(1.4 p.p.)
Professional services	5.0%	3.9%	6.9%	4.9%	(1.1 p.p.)	3.0 p.p.
Rental expenses & royalties	6.5%	2.0%	2.0%	1.0%	(4.5 p.p.)	-.
Marketing and selling expenses	3.4%	3.6%	2.7%	3.4%	0.2 p.p.	(0.9 p.p.)
Bank commissions	0.5%	0.3%	0.2%	0.2%	(0.2 p.p.)	(0.1 p.p.)
Insurance premiums	0.3%	0.4%	0.2%	0.2%	0.1 p.p.	(0.2 p.p.)
Taxes other than income tax	1.5%	1.2%	1.0%	1.3%	(0.3 p.p.)	(0.2 p.p.)
Other	15.0%	9.9%	10.1%	9.5%	(5.1 p.p.)	0.2 p.p.
<b>Total</b>	<b>46.3%</b>	<b>34.0%</b>	<b>34.4%</b>	<b>32.9%</b>	<b>(12.3 p.p.)</b>	<b>0.4 p.p.</b>

<sup>(1)</sup> Data from Cableuropa's audited financial statements for the year ended December 31, 2005 on an unconsolidated basis.

*Costs capitalized as property and equipment* relate to direct labour costs associated with the development and construction of our network

*Depreciation and amortization* is principally related to the depreciation of our network, customer premise equipment and installation costs incurred in connection with the addition of new subscribers, and to the amortization of intangible assets. The increase in depreciation and amortization expenses during 2005 principally reflects (i) the effect of the acquisition of Auna, (ii) the amortization of assets contributed by Retecal (iii) to a lesser extent, the increases in our fixed assets as we continue the construction of our network and (iv) the amortization of the goodwill from the acquisition of shares of subsidiaries that were merged into Cableuropa in 2005 – see Other income and expense – Amortization of Goodwill - below.

### 3. Operating Profit

We calculate Operating Profit as revenues minus operating expenses. Operating Profit for the year ended December 31, 2005 amounted to €11.2 million (€28 million in Old ONO). In 2004, for the first time, we achieved operating profit after depreciation and amortization of €70.6 million compared to an operating loss of €4.6 million during the year ended December 31, 2003. The Operating Profit increase from 2004 to 2005 reflects the increase in revenues which outweighed the increase in operating expenses during the periods under review for the reasons discussed above.

This improvement reflects economies of scale which have lowered our costs of interconnecting our telephony services, the renegotiation of contracts for Internet transit and cable television programming and the increased proportion of higher margin products, such as broadband Internet services, within our portfolio of services offered.

As a percentage of revenues, Operating Profit was 1.5% in 2005 (4.7% for Old ONO) and 15.9% in 2004. As part of our transformation process we have identified specific projects to improve the level of Operating Profit as a percentage of revenues in ONO.

#### 4. Net Financial Expense

The following table sets forth ONO's net financial expense and the percentage change for the periods indicated:

<i>Data in € million</i>	2003	2004	2005		% change	
			Actual	Old ONO <sup>(1)</sup>	03/04	04/05
Net financial expense	(130.2)	(104.0)	(134.4)	(126.3)	(20.1%)	29.2%

<sup>(1)</sup> Data from Cableuropa's audited financial statements for the year ended December 31, 2005 on an unconsolidated basis.

Our net financial expense is mainly comprised of interest expense from our financing agreements explained below. Net financial expense increased by 29.2% to €134.4 million in 2005, in spite of the enhanced financial terms of our refinancing, due to our negative free cash flow (after debt service) and to the consequent increase in our total debt. In addition, our net financial expense includes financial expenses of Auna from the date of its acquisition in November 2005 and the revaluation of our EVCs (which accrue expense on a non-cash basis).

Net financial expense decreased by 20.1% during the year ended December 31, 2004 to €104 million, as compared to €130 million during the year ended December 31, 2003. This decrease was principally due to lower interest expense on debt related to notes issues although we recognised a loss on foreign exchange derivative instruments registered in 2003.

#### 5. Other Income and Expense

The following table sets forth ONO's other income and expense and the percentage change from period to period for each of the periods indicated:

<i>Data in € million</i>	2003	2004	2005	% change	
				03/04	04/05
Amortization of goodwill	(13.4)	(10.2)	(2.6)	(23.9%)	(74.5%)
Net extraordinary expense	298.2	(61.2)	(417.6)	(120.5%)	582.4%
Income tax	(53.0)	21.4	76.0	(66.7%)	261.9%

##### a) Amortization of Goodwill

We amortized €10.2 million of goodwill during the year ended December 31, 2004 as compared with €13.4 million for the year ended December 31, 2003. The reduction in 2004 and 2005 figures reflects the effect of vertical mergers within the Group whose goodwill is reclassified to intangible assets.

##### b) Net Extraordinary Expense

As a result of the acquisition of Auna and of our refinancing, in 2005 we incurred a substantial amount of extraordinary expenses, including the write off of certain assets. A detail of our extraordinary results in 2005 is as follows:

<i>Data in € million</i>	<u>2005</u>
<b>Extraordinary income:</b>	<u>14.5</u>
<b>Less extraordinary expenses:</b>	
Write-off of tangible assets	68.6
Write-off of deferred expenses	136.2
Tax credit adjustment	197.6
Other	<u>29.7</u>
<b>Extraordinary expenses</b>	<u>432.1</u>
<b>Negative extraordinary results, net</b>	<b>(417.6)</b>

The most significant extraordinary expenses incurred in 2005 are:

- Write off of tangible assets, with a net book value of €69 million, which are deemed obsolete or excess to future requirement;
- €136 million write-off of deferred expenses in connection with our refinancing and the financing of the acquisition of Auna;
- An adjustment of €198 million resulting from recent announcement by the Spanish Government of an upcoming reduction in the corporate tax rate from the current 35% to 30%.

#### c) **Income Tax**

Since we commenced operations, we have incurred losses every year except 2003. We book the related tax credits in our financial statements. In the year ended December 31, 2005 we generated a net tax credit of €76 million. Under Spanish corporate income tax law, tax losses can generally be carried forward for up to 15 years from the date such losses were incurred. We do not anticipate paying any income taxes for the next several years, as our outstanding tax loss carry forwards can be used to offset any future taxable income.

#### 6. **Other financial considerations**

##### **Effect of Inflation**

We do not currently believe that our business will be affected by inflation to a significantly different extent than the general economy. However, we cannot assure you that inflation will not have a material adverse effect on our business in the future.

##### **Critical Accounting Policies**

We prepare our financial statements in accordance with Spanish GAAP, which differ in certain significant aspects from US GAAP. The preparation of financial statements in conformity with Spanish GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosure of contingent assets and contingent liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of the uncertainty of factors surrounding the estimates or judgments used in the preparation of the consolidated financial statements, actual results may vary from these estimates.

##### **Goodwill**

As a result of our corporate reorganization described above, we acquired additional shareholdings in certain of our subsidiaries. Goodwill reflects the positive difference between the book value of the parent company's direct or indirect shareholdings in subsidiaries and the value of the portion of the subsidiaries' net equity which is attributable to those shareholdings, adjusted for any latent capital gains at the date of the acquisition. The goodwill calculation requires certain estimates with respect to the value of such subsidiaries and thus involves significant discretion. However, in order to comply with Spanish regulations, an independent expert report on such value was obtained at the time the goodwill was recorded.

Goodwill arising as a consequence of vertical mergers within the Group is shown under the caption Intangible assets.

Up to 2004, goodwill was amortized on a straight-line over 20 and 8 years as this was considered to be the estimated payback period for the investments concerned. Following the recent acquisition of Auna TLC, the recovery period for goodwill has been re-estimated from 20 to 8 years and from 8 to 4 years in the specific case of the amortization of the goodwill relating to Retecal. These periods are those in which positive cash flows are expected to be achieved.

The negative consolidation difference assigned to the losses incurred by the acquired company or to the reasonable forecast of expenses relating thereto, to the extent that this forecast is realized, is taken to the statement of profit and loss.

Set out below is the net book value of Auna as of October 31, 2005 and the realizable value allocated to the net assets acquired, the acquisition cost and the negative consolidation difference arising from that acquisition:

<i>Data in € million</i>	Net book value at October 31, 2005	Allocated realizable value
Start-up costs	21	14
Intangible assets	453	63
Tangible assets	2,946	2,378
Financial assets	578	1,040
Deferred expenses, net	135	19
Goodwill	81	-
Current assets	271	192
Total assets	<u>4,485</u>	<u>3,706</u>
Participative loans	1,402	1,402
Minority interests	3	3
Deferred income, net	3	2
Provisions for liabilities and charges	37	398
Long-term creditors	972	972
Current liabilities	888	888
Total liabilities	<u>3,305</u>	<u>3,665</u>
Net asset value	1,180	41
Value of the net assets acquired		41
Participative loans		1,402
Commercial loans		925
		<u>2,368</u>
Acquisition cost <sup>(1)</sup>		2,105
<b>Negative consolidation difference</b>		<u><b>263</b></u>

<sup>(1)</sup> Includes the costs related to the acquisition

The negative consolidation difference was initially assigned to long-term contracts relating to the maintenance of telecommunications infrastructure and football broadcast rights, as well as future losses associated to costs to be incurred in the integration of the acquired company.

The negative consolidation difference is provisional and has not yet been completed since the process for evaluating the realizable values of the net assets acquired at the date of preparation of this Report.

### ***Tax Credits***

Corporate income tax expense (or income) is recognized based on the reported profit or loss as adjusted for permanent differences between reported and taxable consolidated profit or loss, and the effects of any deductions. Deferred tax assets and liabilities arising from timing differences in the recognition of income and expense for accounting and tax purposes are recorded in the consolidated balance sheet until the underlying timing differences reverse, if the deferred tax assets are expected to be realized within a ten year period from the date on which they were generated. Tax credits are accounted for as financial investments when they are expected to be recovered beyond one year. Deferred tax credits expected to be recovered within one year, if any, are presented as accounts receivable.

### ***Income and Expenses***

Income and expenses are recorded on an accrual basis, i.e. in the period in which the income or expense deriving from the goods or services provided is earned or incurred. Revenues are recognized only when persuasive evidence of a sales arrangement exists, the related services have been rendered, the sales price to the customer is fixed and determinable and collectibility is reasonably assured. Foreseeable risks and potential losses are recorded as soon as they are identified.

### ***Valuation of Equity Value Certificates and Stock Option Plan***

The valuation of, and liabilities under, our EVCs (issued in connection with the 2009 Notes and the 2011 Notes) and our Phantom Stock Option Plan are based on the estimated value of our shares because there is no current market price for these shares. The gain or loss resulting from a reassessment of the value of the liabilities associated with the EVCs and our Phantom Stock Option Plan is recorded as income or loss, as appropriate, in the consolidated income statement.

### ***Impairment of Assets***

We evaluate the carrying value of all assets whenever events or circumstances indicate the carrying value of assets may exceed their recoverable amounts. An impairment loss is recognized when the estimated future cash flows expected to result from the use of an asset are less than the carrying value of the asset.

## **B. Liquidity and Capital Resources**

Our liquidity requirements arise primarily to meet our ongoing debt service obligations and working capital requirements until the time when we expect to achieve positive cash flow. We do not expect to achieve positive cash flow until at least before the end of 2008. Our principal sources of funds are cash flow from operations, borrowings under our New Senior Facility and borrowings under other financing agreements. Subject to no material changes in our operations or in our operating environment, we believe that our sources of funding will be sufficient to fund our liquidity requirements. As of December 31, 2005, we had approximately €1.2 billion of borrowing availability under the New Senior Facility.

### ***Financing Arrangements***

In addition to cash flow from our operating activities, our other sources of liquidity include short and long term debt facilities and cash on hand. In connection with the completion of the Auna Acquisition and the refinancing of the February 2005 Senior Bank Facility, we borrowed approximately € 1,897 million (including €97 million drawn under the New Senior Facility's €100 million guarantees tranche) and had approximately €1,200 million of borrowing availability under the New Senior Facility as at December 31, 2005. In addition, on that date, we borrowed a total of €400 million under the Subordinated Facility, the Subordinated Bridge Facility and the Participative Loan. As at December 31, 2005, our net debt was approximately €2,714 million. In February 2006, the Subordinated Bridge Facility was prepaid with the proceeds of the 8% Notes due 2014 issue. We expect to incur additional indebtedness, principally from drawings under the €3,100 million New Senior Facility, in the future principally to fund our interest expenses and working capital needs, the Deferred Acquisition Price and, to the extent not covered by operating cash flows, capital expenditures. Any drawings under the New Senior Facility are subject to the satisfaction of certain conditions precedent and compliance with covenants, including the maintenance of certain debt ratios. See "Item 10 – C. Material Contracts". In addition to the foregoing indebtedness, as of

December 31, 2005, we had €79.4 million of Spanish state subsidized financing outstanding. These subsidized financing is backed by guarantees under the New Senior Facility.

Our outstanding financial debt as of December 31, 2005 and the maturity of that financial debt is summarized in the following table:

<i>Data in € million</i>	<b>Expected maturity date</b>					<b>Subsequent years</b>	<b>Total debt</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>		
<b>Floating interest debt</b>							
New Senior Facility	-	6.4	53.2	159.2	313.8	1,288.4	1,821.0
Subordinated Facility	-	-	-	-	-	110.0	110.0
Participative Loan	-	-	-	-	-	20.0	20.0
Subordinated Bridge Loan	-	-	-	-	-	270.0	270.0
Floating Rate Notes due 2014	-	-	-	-	-	100.0	100.0
Other credit facilities	60.1	5.1	3.9	2.4	1.9	4.9	78.4
<b>Total variable interest debt</b>	<b>60.1</b>	<b>11.5</b>	<b>57.1</b>	<b>161.6</b>	<b>315.7</b>	<b>1,793.2</b>	<b>2,399.4</b>
<b>Fixed interest debts</b>							
Debt related to the issuance of Notes	-	-	-	-	-	242.0	242.0
Subsidized loans	11.4	9.9	16.8	14.9	12.3	14.1	79.4
<b>Total long- and short-term debt</b>	<b>71.6</b>	<b>21.4</b>	<b>73.9</b>	<b>176.6</b>	<b>328.0</b>	<b>2,049.3</b>	<b>2,720.8</b>

### *Capital Expenditures*

Our business is capital intensive. We incurred capital expenditures of €342million, €232million, and €204million, during the years ended December 31, 2005, 2004 and 2003, respectively. The 2005 capital expenditures include the investments done by Auna during November and December. The Old ONO's investments increased by 5.5% during 2005 to €245.3 milion. In 2006, we anticipate capital expenditures for the ONO Group (including Auna) of less than €600 million, excluding integration costs which, under certain circumstances, may be classified as capital expenditure. The level and timing of capital expenditures we actually make will depend on the pace of the network build-out and upgrades and the integration and transformation of Auna's businesses, among other things.

These capital expenditures were funded primarily with cash flow from operations and drawings under our February 2005 Senior Bank Facility and our 2001 Senior Bank Facility, respectively. The February 2005 Senior Bank Facility was refinanced on November 4, 2005 by the New Senior Facility.

Our capital expenditure is principally related to network build-out, set-top box purchases, installations and network upgrades and going forward will also include the integration and transformation of Auna. The purchases of computer software and other intangible assets are also included as capital expenditure. A substantial portion of this capital expenditure related to the discretionary extension of our network. In the short term, we believe we could defer a significant portion of these discretionary costs if liquidity were limited. In the longer term, we would need to continue a certain level of investment to maintain the level of service and performance we seek to offer our customers.

### **C. Research and development, patents and licenses**

Our research and development activities involve the analysis of technological developments affecting our telephony, Internet and cable television services, the evaluation of existing service and sales and marketing techniques and the development of new sales and marketing techniques. We have been granted subsidized loans by the Ministry of Industry, Tourism and Commerce (*Ministerio de Industria, Turismo y Comercio*) and CDTI (*Centro para el Desarrollo Tecnológico Industrial*) for, among other projects, the development of our broadband Internet portal, our digital television platform, our IP network for video services, our digital television services, IP multimedia services, online remote administration of nodes, network activation and other research and development projects such as tele-medicine, tele-security and tele-sales platforms. Research and development costs are expensed as incurred and the related capital expenditures, to the extent they are used for our operations, are included in the relevant property, plant and equipment line item, as appropriate.

We do not have any material patents or copyrights nor do we believe that patents play a material role in our business. We own and have the right to use the registered trademarks that we believe are of material importance to our business, including the "ONO" logo and the "Auna" logo. Although, since the closing of the Auna Acquisition, Auna has used the "ONO". Old ONO and Auna have been granted concessions for our cable franchises in Spain and incurred license costs in connection with these franchises that are recorded in our respective balance sheets as intangible assets.

### **D. Trend Information**

See "A - Operating Results" and "B - Liquidity and Capital Resources" for information on this item.

### **E. [Reserved]**

### **F. Disclosure of other financial obligations**

Set forth below is a description of our other financial obligations, excluding financial debt.

#### ***Currency and Interest Rate Hedging***

In May 2005 the Group purchased two American euro call/USD put options, with the strike at US\$1.18 per €1.00 and final maturity on February 10, 2006 amounting to US\$63.0 million. The aforementioned amount is equivalent to the US dollar amount necessary to repurchase the remaining 2011 Notes at their first call date. A premium of €0.7 million was paid to the counterparties.

In January 2006, we sold the American Options and acquired a currency collar, which limits our exposure to between US \$1.20 and US \$1.25 per €1.00 with respect to the Relevant Redemption Amount.

As discussed above, we entered into an interest rate step-up swap agreement with respect to €500 million to cover a portion of our exposure to floating interest rates.

#### ***Equity Value Certificates ("EVCs")***

In connection with the issue of the 2009 Notes and the 2011 Notes, ONO Finance Plc issued EVCs. The EVCs entitle their holders to receive cash in an amount equal to the market value of a fixed number of our shares. The percentage of our share capital to which the holders of EVCs are entitled can be diluted under certain circumstances. The EVCs mature on May 31, 2009 and February 15, 2011. However, in certain circumstances (such as an initial public offering of Cableuropa) we may be required to redeem the EVCs prior to their maturity.

The EVCs are guaranteed on a senior subordinated basis by Cableuropa, which entered into a related EVC funding agreement with ONO Finance Plc. Pursuant to the EVC funding agreements, we received the net proceeds of the EVCs in return for our commitment to pay ONO Finance Plc an amount at least equivalent to the amount payable by ONO Finance Plc to the EVC holders at maturity.

At the time of each EVC issue and each EVC funding agreement, we accounted for a liability in an amount equal to the EVC proceeds received. The current value of the liability depends on the estimated market value of our shares, and accordingly the book value of these liabilities is subject to change. The resulting gain or loss in the book value of our EVCs is recognized as other financial income or expense in our profit and loss account. We value the EVCs at the end of each quarter and we recognize the gain or loss associated with the decrease or increase in the related liability as financial income or expense, as the case may be. As of December 31, 2005, the EVCs were valued at €35.5 million.

As of April 2006, GCO owned approximately 50% of the total EVCs outstanding.

### ***Guarantees***

We have secured guarantees from Spanish credit institutions that guarantee our compliance with specific commitments under our cable television and telecommunications licenses as well as our repayment of the subsidized loans. These guarantees were granted to, among others, the Spanish Ministry of Industry, Tourism and Commerce, City Councils and other organizations. The New Senior Facility includes a tranche to provide guarantees up to € 100 million. On November 4, 2005, in connection with the Auna Acquisition and the refinancing of the February 2005 Senior Bank Facility, €97 million of this tranche was drawn to cover the amount of guarantees relating to subsidized loans and a performance guarantee provided in connection with the sale of Retevisión I by Auna's former parent company to Abertis, which was assumed by Cableuropa in connection with the Auna Acquisition.

### **G. Safe Harbor**

This Report contains forward-looking statements. These forward-looking statements include all matters that are not historical facts, including the statements under Items 3, 4 and 5 and elsewhere regarding future events or prospects. Statements containing the words “believe,” “expect,” “intend,” “anticipate,” “will,” “positioned,” “project,” “risk,” “plan,” “may,” “estimate” or, in each case, their negative and words of similar meaning are forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this Report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in subsequent periods. Important facts that could cause our actual results of operations, financial condition or cash flows to differ from our current expectations include, but are not limited to:

- our continued and substantial net losses;
- our ability to generate sufficient cash flow to fulfill our debt obligations;
- our substantial leverage and ability to service our debts;
- changes in the accounting standards under which we prepare our financial statements;
- our failure to ensure sufficient access to premium programming;
- difficulties we may encounter in finalizing the integration of Retecal or any future acquisition target and the extent to which it is necessary to devote significant management time and capital resources to any acquired business;
- our reliance on others to provide us with mission critical hardware and software;
- our ability to avoid unanticipated network downtime;

- our failure to maintain and upgrade our network;
- our failure to retain our key employees;
- competition from other companies in our industry and our ability to retain or increase our market share;
- the anticipated growth of the telecommunications, Internet access and cable television industries in Spain;
- the effect of changes in the regulatory environment on the telecommunications and cable television industries in Spain;
- restrictions and limitations on our activities contained in the agreements governing our debt;
- our ability to access the financial markets in order to refinance our debt; and
- general economic conditions and business condition in the markets served by us.

Consequently, our current business plans, anticipated actions and future financial condition, results of operations and cash flows, as well as the anticipated development of the industry in which we operate, may differ from those expressed in any forward-looking statements made by us. These forward-looking statements are uncertain and we cannot assure you that any such statements will prove to be correct. Actual results and developments may be materially different from those expressed or implied by such statements. Readers should carefully review the other risk factors set forth in this section and the information under “Item 4 – Information on the Company”, “Item 5 – Operating and Financial Review and Prospects” and “Item 11 – Quantitative and Qualitative Disclosures about Market Risk” for a discussion of some of the factors that could affect our future performance and the industry in which we operate and which could result in any of these forward-looking statements proving to be inaccurate.

Apart from any requirements pursuant to the laws and regulations discussed above, we have no obligation to, and do not intend to, update publicly or revise any forward-looking statements in this Report, whether as a result of new information, future events or otherwise. You are cautioned not to rely unduly on forward-looking statements when evaluating the information presented herein.

## **Item 6. Directors, Senior Management and Employees**

### **A. Directors and Senior Management**

Our directors and senior managers have had extensive experience in other telecommunications and related companies in the United Kingdom, the United States and Spain. Cableuropa was founded by Eugenio Galdón. Mr. Galdón was instrumental in the liberalization of the Spanish telecommunications and cable television markets and has managed several of Spain's largest media companies. In addition, several other key members of our management team have extensive experience with other cable television and telecommunications companies in Spain and internationally.

All decisions regarding our business, which are required to be taken at the board of directors level, are made by the Board of Directors of GCO, our ultimate corporate parent.

#### *Description of GCO's Shareholders' Agreement*

GCO's Shareholders' Agreement dated July 29, 2005, as amended, provides that GCO's Board of Directors will consist of thirteen directors. Pursuant to the shareholders' agreement, Eugenio Galdón and Richard Alden, our Chief Executive Officer, must each be a director. In addition, two of the directors must be independent directors, one of which will be appointed by the shareholders who were shareholders in GCO prior to the date of the shareholders' agreement (the "Prior Shareholders") and approved by the shareholders who became shareholders following the date of effectiveness of the shareholders' agreement that is November 2005 (the "New Shareholders"). The other independent director will be appointed by the New Shareholders and approved by the Prior Shareholders. With respect to the remaining nine directors, owners of each stake of 11.11% of the share capital in GCO will be permitted to appoint one director. If the board cannot be fully appointed in this manner, then shareholders with stakes or remaining portions less than 11.11% shall have the right to appoint directors in descending order of their stake or remaining portion of stake.

While the GCO Board of Directors may delegate many of its powers to the president and the managing director, Eugenio Galdón and Richard Alden, certain actions will require the prior approval of the Board of Directors and, in some cases, the approval of GCO's or Cableuropa's Chairman, Eugenio Galdón, as applicable.

Certain corporate decisions (mainly amendments to the By-laws, merger, spin-off, into another bond of corporation, liquidation, winding-up, issuance of convertible securities, dividend policy and treasury stock) require the favorable vote of the holders of at least two-thirds of GCO's voting shares.

#### *Administration Agreement*

On March 30, 2002, Cableuropa signed an Administration Agreement with GCO which was amended on March 28, 2003. Pursuant to this Administration Agreement, the GCO Board of Directors must approve all significant decisions affecting the business and corporate affairs of the ONO Group. In addition, GCO appoints the directors to the Cableuropa Board of Directors, consisting of two executive directors, two independent directors and a director representing the shareholders of GCO. Cableuropa's managing director and president, if necessary, execute all decisions that are not subject to a formal approval by the Cableuropa Board of Directors.

## Directors of GCO

As of December 31, 2005, the Directors of GCO are as follows:

Name	Age	Title	Member of Board of Directors since	Term Expires
Eugenio Galdón <sup>(1)</sup>	55	Director and President	2002	2008
Richard Alden <sup>(1)</sup>	42	Managing Director	2002	2008
Matías Rodríguez Inciarte <sup>(2)</sup>	58	Director, First Vice-President	2002	2008
John Hahn <sup>(3)</sup>	47	Director, Second Vice-President	2005	2008
Soren Oberg <sup>(4)</sup>	35	Director	2005	2008
Tom Walker <sup>(5)</sup>	44	Director	2005	2008
Joshua Steiner <sup>(6)</sup>	40	Director	2005	2008
Scott Jaeckel <sup>(4)</sup>	35	Director	2005	2008
Richard Laxer <sup>(7)</sup>	45	Director	2005	2008
Tomás Fuertes Fernandez <sup>(8)</sup>	66	Director	2004	2008
David Brochet <sup>(9)</sup>	39	Director	2002	2008
Francisco Gutiérrez Churtichaga <sup>(10)</sup>	40	Director	2005	2008
Leopoldo Calvo-Sotelo <sup>(10)</sup>	79	Director	2005	2008

- (1) Executive Directors appointed in the Shareholders' Agreement.
- (2) Appointed as proposed by Banco Santander Central Hispano (SCH).
- (3) Appointed as proposed by Providence Equity Partners.
- (4) Appointed as proposed by Thomas H. Lee Partners.
- (5) Appointed as proposed by JP Morgan Partners.
- (6) Appointed as proposed by Quadrangle Capital Partners.
- (7) Appointed as proposed by GE Structured Finance.
- (8) Appointed as proposed by Grupo Multitel.
- (9) Appointed as proposed by Caisse de Dépôt et Placement du Québec.
- (10) Independent director.

In addition to the Directors, four observers may also attend board meetings of GCO, two of which may be proposed by the New Shareholders and two of which may be proposed by the Prior Shareholders.

**Eugenio Galdón** is an Executive Director and is the founder, Chairman of the Board and President of Cableuropa. He is also Chairman of the Board and President of GCO. Between 1973 and 1982, Mr. Galdón occupied several senior positions in the Spanish government, including Chief of Staff to the President of the Government of Spain. From 1983 until 1991, Mr. Galdón managed different media companies, including the radio networks COPE and the radio and television programming and broadcasting division of the PRISA Group. Since 1992, Mr. Galdón has been President and majority shareholder of Multitel, a holding company he founded in order to invest in the media and telecommunications industry in Spain. Mr. Galdón has been a Director of Cableuropa since December 1997.

**Richard Alden** is an Executive Director and has been the Chief Executive Officer of Cableuropa since 2000. Mr. Alden is also Managing Director of GCO. From 1994 to 1998, Mr. Alden worked for Groupe Videotron, Canada's second largest cable operator, in a number of senior finance positions at Videotron U.K. and subsequently at Groupe Videotron's microwave based cable and telephone business in the United States. Mr. Alden joined Cableuropa in February 1998 as Chief Financial Officer.

**Matías Rodríguez Inciarte** is Vice Chairman of Grupo Santander and Executive Chairman of its Delegate Credit Committee. In addition, Mr. Rodríguez Inciarte is chairman of Santander-Met, an insurance holding group, and a member of Banesto's board of directors. Previously, Mr. Rodríguez Inciarte served in the Spanish cabinet as Minister to the President (*Ministro de la Presidencia*).

**John Hahn** is a Managing Director of Providence Equity Partners Ltd and is responsible for Providence's European investment activities. He is also a board member of Casema Holdings BV, Recoletos Grupo de Comunicación S.A., Digital Platform Hizmetleri A.S., and Kabel Deutschland GmbH. Previously Mr. Hahn served as a director of eircom Limited, Ireland, and its holding company Valentia Telecommunications. Prior to joining Providence, Mr. Hahn was a managing director at Morgan Stanley & Co.

**Soren Oberg** is a Managing Director at Thomas H. Lee Partners, where he worked from 1993 to 1996 and rejoined in 1998. Prior to THL, he worked at Morgan Stanley & Co. Incorporated in the Merchant Banking Division, and at Hicks, Muse, Tate & Furst. Mr. Oberg received an A.B. in Applied Mathematics from Harvard College and an M.B.A. from Harvard Graduate School of Business Administration. He is a Director of American Media Inc., National Waterworks Inc., and Vertis Inc.

**Tom Walker** is a Partner of the European team at JP Morgan Partners ("JPMP"), focused on leveraged buyouts. Prior to joining JPMP in July 2002, Mr. Walker was Managing Director and European Head of Financial Sponsor Coverage for JP Morgan in London. Mr. Walker began his career in the Investment Banking Division of Drexel, Burnham Lambert in New York in 1988, and subsequently worked for First Boston and Chase. Mr. Walker received a BA from the University of Wisconsin and an MBA from the University of Chicago.

**Joshua Steiner**, prior to founding Quadrangle, was a Managing Director of Lazard, where he was a member of the Media and Communications Group and worked on advisory and financing assignments for clients in various industries including electronic and print publishing, television and radio broadcasting, telephony and data communications, online distribution and content, and cable, wireless and satellite video distribution and programming. Mr. Steiner received an M. St. in Modern History from University College, Oxford University, and a B.A. in History from Yale University.

**Scott Jaeckel** is a Managing Director at Thomas H. Lee Partners, where he worked from 1994 to 1996 and rejoined in 1998. Prior to THL, he worked at Morgan Stanley & Co. Incorporated in the Corporate Finance Department. Mr. Jaeckel received a B.A. in Economics and Mathematics from the University of Virginia and an M.B.A. from Harvard Graduate School of Business Administration. Mr. Jaeckel is a Director of Warner Music Group Corp. and Paramax Capital Group.

**Richard Laxer** is the leader of GE Structured Finance's European business headquartered in London. Before assuming his current assignment, Mr. Laxer was based in Tokyo for three years and ran GE's Asia Pacific Real Estate business. Prior to the Asia-Pacific role, he established and led GE Real Estate's Fund Capital Group based in New York. Mr. Laxer is a graduate of GE's Financial Management Program and holds a B.S. in Business from Skidmore College.

**Tomás Fuertes Fernández** is the owner of El Pozo holding company and is the president of the Fuertes Group and is also a member of the Executive Committee of the Region of Murcia Confederation of Entrepreneurs. Mr. Fuertes has a degree in Executive Business Management from the University of Murcia, and has also been awarded a diploma in Business Management by the Ministry of Economy.

**David Brochet** is responsible for telecommunications investments in Europe since he joined CDP Capital Communications in October 1998. Mr. Brochet is a member of the Quebec Engineers Association and a Chartered Financial Analyst (CFA). Mr. Brochet has been a Director of GCO since March 2002. Prior to his appointment as director of GCO, Mr. Brochet had been a permanent observer to the Board of Directors of Cableuropa since February 2001.

**Francisco Gutiérrez Churtichaga** is the coordinator of JP Morgan Partners private equity investment activities in Spain focusing on leverage buyouts. Previously, Mr. Gutiérrez was a Vice President at JP Morgan Capital, where he was a member of the telecommunications and media sector group focusing in Europe and the US. Francisco also was head of new businesses for Retevisión (Auna) where he led the internet unit and the team responsible for Amena's wireless license award and start-up. Mr. Gutiérrez received an MSc in Telecommunications Engineering from Madrid University and an MBA from Duke University.

**Leopoldo Calvo-Sotelo** was President of the Spanish Government from 1981 to 1982 and a member of the European Parliament from 1983 to 1987. Mr. Calvo-Sotelo held senior positions in Unión Española de Explosivos, RENFE, Banco Urquijo, Banco Central Hispano, and the Ortega y Gasset

Foundation. Mr. Calvo-Sotelo became an independent Director of Cableuropa in November 2000. He is also an independent Director of GCO.

### Directors of Cableuropa

The Directors of Cableuropa are as follows:

<b>Name</b>	<b>Age</b>	<b>Title</b>	<b>Member of Board of Directors since</b>	<b>Termination</b>
Eugenio Galdón <sup>(1)</sup> .....	55	Director and President	1997	2008
Richard Alden <sup>(1)</sup> .....	42	Managing Director	2000	2008
John Hahn <sup>(2)</sup> .....	47	Director	2005	2008
Leopoldo Calvo-Sotelo <sup>(3)</sup> .....	79	Director	2000	2008
Francisco Gutiérrez Churtichaga <sup>(3)</sup> .....	40	Director	2005	2008

(1) Executive director.

(2) Appointed by the shareholders of GCO.

(3) Independent director.

### B. Board Practices

GCO's Board of Directors established a RAC (Remuneration and Appointments Committee) and an ACC (Audit and Compliance Committee) that perform their functions for all the companies in the ONO Group.

#### Remuneration and Appointments Committee

GCO's Remuneration and Appointments Committee is comprised of five members of its Board of Directors and ruled by the Committee's Regulations as approved in December 2005. Its purpose is to oversee the ONO Group's remuneration, recruitment and human resource policies. Decisions taken by this committee are then recommended to the Board of Directors of GCO for their approval or amendment.

The following table shows the members of GCO's Remuneration and Appointments Committee:

<b>Name</b>	<b>Title</b>
John Hahn.....	President
Joshua Steiner .....	Member
Scott Jaeckel.....	Member
Richard Laxer.....	Member
Francisco Gutiérrez Churtichaga.....	Member
Mariona Roger .....	Secretary
Eugenio Galdón .....	Observer
Richard Alden .....	Observer
Hermenegildo Simón .....	Observer

#### Audit and Compliance Committee

GCO's audit and compliance committee is comprised of five members of its board of directors and ruled by the Committee's Regulations as approved in December 2005. It meets regularly and its purpose is to oversee the ONO Group's internal controls and audit policies, among others. Decisions taken by this committee are then recommended to the Board of Directors of GCO for their approval or amendment.

The following table shows the members of GCO's Audit and Compliance Committee:

Name	Title
Matías Rodríguez Inciarte.....	President
Soren Oberg .....	Member
Tom Walker .....	Member
Tomás Fuertes Fernández.....	Member
Leopoldo Calvo-Sotelo .....	Member
Mariona Roger .....	Secretary
Eugenio Galdón .....	Observer
Richard Alden .....	Observer
Hermenegildo Simón.....	Observer

### Senior Management

The following table lists certain members of our senior management team:

Name	Age	Title	Member of Management since
Eugenio Galdón .....	55	Director and President	1997
Richard Alden .....	42	Chief Executive Officer	1998
Jonathan Cumming .....	37	Chief Financial Officer	2000
Philip Blanchette.....	56	Managing Director—Operations	2001
Fernando Ojeda.....	42	Managing Director—Customers and Services	2004
Joaquín Coronado .....	43	Managing Director—Transformation	2005
Fernando Martínez de Guinea .....	43	Business Management Director	2004
Mariona Roger .....	44	Company Secretary and Legal Services	1997

Set forth below are the biographies of each of these senior managers, other than those provided above:

**Jonathan Cumming** is our Chief Financial Officer. Prior to joining Cableuropa in May 2000, Mr. Cumming held a number of positions in the Barclays Group both in Spain and in the United Kingdom. Latterly, he worked in the investment banking division with the responsibility for the bank's telecommunications financings in Spain and Portugal. Mr. Cumming is a graduate of Cambridge University.

**Philip Blanchette** is our Managing Director for Infrastructure and Operations. Mr. Blanchette joined Cableuropa from NC Numericable, the second largest cable operator in France, where he was Chief Operating Officer. Previously, Mr. Blanchette held various senior positions in telecommunications operators around the world such as Global Telesystems Group.

**Fernando Ojeda** is our Managing Director for Customers and Services. Prior to joining Cableuropa in March 2004, Mr. Ojeda was Chief Executive Officer of Cadbury Dulciora. He was previously Chief Executive Officer of Bahlsen Group in Italy, after holding the General Manager and the Manager of Sales and Marketing positions at this company.

**Joaquín Coronado** is our Managing Director for Transformation. Mr. Coronado recently joined ONO from Energías de Portugal (EDP), where he was Managing Director and a member of the Board Directors. Previously, Mr. Coronado was CEO of Hidrocantábrico, Telvent and Abengoa Bioenergy. In addition, he has been a member of the Board of Directors of OMEL, Telecable, REE, Retecal and Befesa.

**Fernando Martínez de Guinea** is our Business Management Director. Prior to joining us in February 2004, Mr. Martínez de Guinea was Senior Director of the audit and consulting Telecommunications and Media Groups in Andersen. As part of his responsibilities in Andersen, Mr. Martínez de Guinea headed the practice for the Spanish cable sector. He previously held different consulting and technical positions in Iberdrola.

**Mariona Roger** is our Company Secretary and Director of Legal Services. She joined Cableuropa in August 1997, from Multitel where she was Company Secretary and Director of Legal Services from 1995. She has worked as a professor in institutions such as the University of Barcelona and the "Instituto de

Empresa" in Madrid and she is a member of ASTEL ("Asociación de Empresas Operadoras y de Servicios de Telecomunicaciones") where she was the president in 1999 and 2000.

### C. Compensation

The amount accrued to members of the Boards of Directors of Cableuropa and GCO for fees and other remuneration, including executive remuneration, totaled €0.7 million in 2005. There are no service contracts or severance benefits for any of our directors with GCO or the ONO Group upon termination of employment (other than service contracts customarily provided with respect to directors).

In 2003, we launched an Incentive Plan aimed to attract and retain certain key employees and managers. The eligible employees have the right, subject to certain conditions, to receive an extraordinary bonus, with a vesting period of approximately three years. The terms of the plan provide for accrual of annual bonuses from 2003 to 2008 based on individual and ONO performance. As a result of the change in our shareholders, a trigger event has occurred and the plan has become due, so the liability has been presented as a short term accrual.

### Share Ownership

Currently none of our directors and members of our administrative, supervisory or management bodies directly holds any ordinary shares of Cableuropa or GCO.

### Stock Purchase Plan

The Board of Directors and the General Shareholders Meeting have approved the establishment of an executive fidelity share purchase plan that will include certain current directors and senior managers of the ONO Group. This plan is currently being finalized and will provide for its members in the aggregate to be awarded a maximum of 3.75% of the share capital of GCO.

As a result of the Auna Acquisition, a number of other fidelity plans have become due, giving rise to a maximum contingent liability for GCO and its subsidiaries of €7.3 million.

### D. Employees

Our average number of full time equivalent employees was 4,301 in 2005; 2,402 in Old ONO and 2,698 in Auna.

We are currently assessing our optimal organizational structure following the Auna Acquisition. A labor force reduction plan has been initiated in 2006 to reduce duplicated functions that have arisen following the Auna Acquisition and to introduce a greater degree of efficiency in the Auna business. We have recently agreed the terms of this labour force reduction with the relevant unions and we have received the required governmental approval for a reduction of up to 785 employees. Redundancies under this plan will be effective from May 2006 to October 2007 (18 months period from the governmental approval).

In 2003, 2004 and 2005, our average number of employees was as follows:

	2003	2004	2005
Executives	49	51	117
Non-Executives	1,704	1,876	4,184
<b>Total</b>	<b>1,753</b>	<b>1,927</b>	<b>4,301</b>

During the year ended December 31, 2004, we had an average of 1,927 fixed and temporary full time equivalent employees, an increase of 174 as compared to the 2003 average. Most of our employees are covered by the cable industry collective bargaining agreement.

## **E. Share Ownership**

Currently none of our directors and members of our administrative, supervisory or management bodies directly holds any ordinary shares of Cableuropa or GCO.

## ITEM 7. SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Shareholders

#### Cableuropa Shareholders

As of December 31, 2005, our authorized share capital was €1,087,896,777 consisting of 1,087,896,777 ordinary shares, of €1.00 par value each, fully subscribed and paid up. All of our ordinary shares are held by GCO, our sole shareholder.

#### GCO Shareholders

In November 2005, GCO completed the Auna Acquisition. Following the Auna Acquisition and the capitalization of the funds injected from JP Morgan Partners, Providence Equity Partners, Thomas H. Lee Partners and Quadrangle Capital Partners, the share capital of GCO is €1,630,414,318 consisting of 1,630,414,318 ordinary shares, of €1.00 par value each. GCO's shareholders were as follows:

<b>Name and address of Beneficial Owner</b>	<b>Total percentage of shares beneficially owned over total capital</b>
<b>Grupo Multitel, S. A.<sup>(1)</sup></b> Pedro Muñoz Seca 4, 28001 Madrid, Spain	16.1%
<b>JPMorgan Partners, LLC<sup>(2)</sup></b> 1221 Avenue of the Americas, New York, New York 10020 USA	15.2%
<b>Providence Equity Partners Inc.<sup>(2)</sup></b> 50 Kennedy Plaza, Providence, Rhode Island 02903 USA	15.2%
<b>Thomas H. Lee Partners, L.P.<sup>(2)</sup></b> 100 Federal Street, Boston, Massachusetts 02110 USA	15.2%
<b>Banco Santander Central Hispano, S.A.</b> Paseo de Pereda, 9-12, Santander, Spain	9.4%
<b>GE Structured Finance, Inc.</b> 1209 Orange Street, Wilmington, Delaware 19801, United States of America	8.9%
<b>Quadrangle Capital Partners<sup>(2)</sup></b> 375 Park Avenue, New York, New York 10152 USA	9.1%
<b>Caisse de Dépôt et Placement du Québec</b> Centre CDP Capital, 1000, Place Jean-Paul Riopelle, Montréal, Québec H2Z 2B3 Canada	6.7%
<b>Sodinteleco, S.L.</b> Francisco Hernández Pacheco 14, Valladolid, Spain	4.3%
<b>Total</b> .....	<b>100.0%</b>

(1) Grupo Multitel, S.A. also includes VAL Telecomunicaciones, S.L. and Telco Investment Europe shares.

(2) Each of JP Morgan Partners, LLC, Providence Equity Partners Inc., Thomas H. Lee Partners, L.P. and Quadrangle Capital Partners is the beneficial owner of GCO shares held by various funds and investment vehicles formed or managed by them.

The amounts and percentages of shares beneficially owned by each shareholder are reported on the basis of SEC rules governing the determination of beneficial ownership, and the information is not necessarily indicative of beneficial ownership for other purposes. Under such rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or direct the voting of a security, or investment power, which includes the power to dispose of or direct the disposition of a security, and includes securities for which a person holds the right to acquire beneficial ownership within 60 days. Except as noted otherwise hereinafter, we believe, but are not in a position to

verify, that each beneficial owner named in the table above has sole voting or investment power with respect to all shares beneficially owned by that owner.

The following is a brief description of each of the beneficial shareholders of GCO.

*Grupo Multitel.* A holding company that was created by Eugenio Galdón, the president of Cableuropa in order to provide support in the definition, launching, management and control of Spanish telecommunications and media projects. In 1992, Grupo Multitel was the first company to launch cable activities in the liberated telecommunications market in Spain. Grupo Multitel includes Val Telecomunicaciones, whose minority shareholders primarily include regional financial institutions, regional newspapers and other local businesses, that were initially direct shareholders of companies in the ONO Group. Other Shareholders in companies of Grupo Multitel include funds sponsored by BNP Paribas, JP Morgan Capital Partners, Candover and Omega Capital.

*JPMorgan Partners, LLC ("JP Morgan Partners")* is a leading private equity firm with approximately \$11 billion in capital under management as of September 30, 2005. Since its inception in 1984, JP Morgan Partners has invested over \$15 billion worldwide in consumer, media, energy, industrial, financial services, healthcare, hardware and software companies. JP Morgan Partners is a private equity division of JPMorgan Chase & Co., one of the largest financial institutions in the United States.

Selected portfolio companies include: AMC Entertainment, Pinnacle Foods, Cabela's, Warner-Chilcott, Ascend Media, Olympus Media and PQ Corp.

*Providence Equity Partners Inc. ("Providence")* is a global private equity firm specializing in equity investments in communications and media companies around the world. Providence manages funds with over \$9.0 billion in equity commitments, including the \$4.25 billion private equity fund Providence Equity Partners V, and has invested in more than 80 companies operating in over 20 countries since the firm's inception in 1990.

Providence's significant investments include: Bresnan Broadband Holdings, Casema, eircom, Kabel Deutschland, Metro-Goldwyn-Mayer, PanAmSat, ProSieben Sat.1 Media, Recoletos, VoiceStream Wireless and Warner Music Group.

*Thomas H. Lee Partners, L.P. ("Thomas H. Lee")*. Thomas H. Lee is a U.S. private equity firm focused on identifying and acquiring substantial ownership positions in growth companies. Founded in 1974, Thomas H. Lee Partners currently manages approximately \$12 billion of committed capital, including its most recent fund, the Partners \$6.1 billion Thomas H. Lee Equity Fund V.

Notable transactions sponsored by the firm include: American Media Inc., Fisher Scientific, Houghton Mifflin, Michael Foods, Nortek, ProSieben Sat.1 Media, Rayovac, Simmons Company, Transwestern Publishing, Warner Chilcott and Warner Music Group.

*Grupo Santander.* Spain's largest bank and one of the major European financial institutions and the largest provider of financial services in Latin America. It has operations in the world's major financial centers and owned total assets of €729 billion.

*GE Structured Finance, Inc.* A leading equity and debt investor and provider of structured financing for companies in communications, energy, commercial and industrial and transportation industries, as well as the project and trade finance markets. GE Structured Finance, Inc. is a unit of GE Commercial Finance, a financial services business of General Electric Company, a diversified manufacturing, technology and services company with worldwide operations.

*Quadrangle Capital Partners* is the private equity business of Quadrangle Group LLC, an alternative investment firm which manages more than \$4 billion, including Quadrangle Capital Partners, which specializes in equity investments in the media and communications industries, and an affiliate which invests in distressed debt securities across all industry groups. Founded in 2000, Quadrangle Capital Partners has sponsored investments in ProSieben Sat.1 Media, Protection One, Inc., NTELOS, Inc, Cablevision and DataNet Communications.

*Caisse de Dépôt et Placement du Québec ("CDPQ")*. A Canadian financial institution that manages funds for public and private pension and insurance funds. Through certain subsidiaries, CDPQ offers private investment funds and real estate management services to external institutional investors. The

leading institutional fund manager in Canada, CDPQ invests in the main liquid markets as well as in private equity and real estate.

*Sodinteleco, S.L.* A holding company owned by most of the former shareholders of Retecal including regional financial institutions and construction companies that became a shareholder of GCO following the acquisition of Retecal.

### **GCO Shareholders' Agreement**

GCO's shareholders entered into the GCO Shareholders' Agreement, dated July 29, 2005 (with effect from the date of closing of the Auna Acquisition—November 4, 2005), which addresses matters relating to our corporate governance, including the election of the GCO Board of Directors, managing director and other senior managers of the ONO Group, major corporate decisions, change of control issues and voting rights. Under this agreement, the voting rights of each shareholder and the companies within its group have been capped to  $\frac{1}{3}$  of the total voting rights.

Each of GCO's current shareholders has agreed to launch an offer to the remaining shareholders for the acquisition of the total share capital of GCO if, either directly or indirectly, any such shareholder acquires or controls one-third or more of GCO's shares or voting rights.

Under the by-laws of GCO, each of the shareholders and GCO enjoy a pre-emptive right in the event of any share transfers, except that share transfers that represent, together with any other transfers effected by the shareholder within one year, less than 1.5% of the total share capital of GCO, may be effected freely, up to a global limit (considering all share transfers by shareholders making use of this rule) of 5% of GCO's shares capital annually.

The parties to the shareholders' agreement expressly agree that the shareholders' agreement takes precedence, between the parties, over the bylaws. The shareholders' agreement expires at the earlier of (i) November 4, 2013, (ii) an initial public offering of GCO stock, or (iii) an agreed sale of GCO.

### **B. Related Party Transactions**

We enter into transactions with certain related parties or our affiliates (as defined in the U.S. Securities Act of 1933) from time to time and in the ordinary course of our business. All such related party transactions were approved or ratified by our Board of Directors and new related party transactions have to be approved by our Board of Directors if the amount of the transaction exceeds € 500,000. Set forth below is a list of certain of our related party transactions:

- We maintain primary bank accounts with Banco Santander Central Hispano and lease vehicles and purchase equipment from affiliates of Banco Santander Central Hispano and General Electric.
- Banco Santander Central Hispano and other shareholders of GCO are lenders to Cableuropa under the New Senior Facility. In addition, Banco Santander Central Hispano is also a lender to Cableuropa under the Subordinated Facility. Affiliates of JP Morgan Partners, LLC are arrangers and lenders under the New Senior Facility and the Subordinated Bridge Facility and one of the Managers for the offering of our Notes in February 2006. See "Item 10.C – Material Contracts"
- GCO's Shareholders' Agreement governs the relationship between GCO and its shareholders, but also has provisions affecting Cableuropa and its subsidiaries. For a description of GCO's Shareholders' Agreement as well as the Administration Agreement between GCO and Cableuropa, see "Item 6 – Directors, Senior Management and Employees".
- GCO entered into the Auna Acquisition Agreement and subsequently transferred GCO's rights and obligations thereunder to Cableuropa. See "Item 4.A – History and Development of the Company".
- GCO acquired Retecal in 2004 and contributed Retecal to Cableuropa in March 2005 in exchange for additional share capital of Cableuropa. Prior to the contribution, Cableuropa and Retecal entered into shared services agreements. See "Item 5 – Operating and Financial Review and Prospects".
- Auna had a variety of related party transactions with its previous shareholders prior to the Auna Acquisition.

**C. [Reserved]**

**ITEM 8. [RESERVED]**

**ITEM 9. THE OFFER AND LISTING**

**A. [Reserved]**

**B. [Reserved]**

**C. Markets**

The 10.5% Notes and the Floating Rate Notes due 2014 trade on the Luxembourg Stock Exchange and are eligible to be traded in the Private Offerings, Resales, and Trading through Automatic Linkages (“Portal”) Market.

**D. [Reserved]**

**E. [Reserved]**

**F. [Reserved]**

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. [Reserved]**

### **B. Memorandum and Articles of Association**

We are a limited company, incorporated under the laws of Spain.

Our bylaws provide, in article 2, that our main corporate purpose consists of the provision of services through, or regarding, cable systems, whether in transmission, operator or final services.

#### **Dividend and Liquidation Rights**

Payment of interim dividends has to be approved by the general shareholders' meeting following a proposal by the Board of Directors. Pursuant to Spanish corporate law, dividends may only be paid out of distributable profits or distributable reserves as long as the value of the company's net worth is not, and as a result of such distribution would not be, less than the value of its share capital. In addition, payment of dividends is restricted under the agreements governing our debt and financial resources.

Holders of ordinary shares are not entitled to a minimum dividend. Dividends on the ordinary shares will be paid on the terms established for any particular dividend. All of the outstanding shares of Cableuropa are ordinary shares.

#### **General Shareholders' Meetings**

Our ordinary general shareholders' meeting must be held at least once a year within six months of the end of each fiscal year on a date fixed by the Board of Directors or the President.

An extraordinary general shareholders' meeting may be called from time to time by the Board of Directors or the President at its discretion or at the request of shareholders representing at least 5% of our share capital.

Notices of all shareholders' meetings must be published in the Commercial Registry Gazette and in, at least, one newspaper widely distributed in the province in which we are domiciled, at least 30 days prior to the meeting. The interval between the first and second call for a shareholders' meeting must be at least 24 hours. Each ordinary share entitles the holder to one vote. Nevertheless, it is not necessary to call a shareholders' meeting when all of the shareholders representing 100% of the share capital are attending a meeting and voluntarily decide to hold a shareholders' meeting unanimously approving the agenda (universal shareholders' meeting). This is always the case when a company, such as Cableuropa, is a sole shareholder company.

Any ordinary share may be voted by proxy. Proxies, which are revocable, must be in writing to natural persons, and are only valid for a single shareholders' meeting.

Article 12 of our bylaws provides that the quorum necessary for the valid constitution of a shareholders' meeting in the first call is the presence in person or by proxy of shareholders representing at least 25% of the subscribed voting share capital (no minimum percentage is required in the second call). Nevertheless, for some major issues two thirds of the subscribed voting share capital of Cableuropa on the first call is required (60% is required, in this case, in the second call).

Resolutions taken by a general shareholders' meeting are binding upon all shareholders. In certain circumstances, Spanish corporate law gives dissenting or absent shareholders the right to challenge resolutions. In certain specific circumstances (such as change of corporate purpose or change to particular corporate forms), shareholders may have the right to have their ordinary shares redeemed by the Company at prices determined in accordance with an established formula. These rights are not applicable in the case of the sole shareholder decisions.

Under Spanish corporate law, shareholders who voluntarily aggregate their ordinary shares have the right to appoint a corresponding proportion of the members of the board of directors. Shareholders

who exercise this right may not vote on the appointment of other directors. None of our directors as of the date of this Report have been appointed by these means.

### **Information Rights**

Under Spanish corporate law, holders of ordinary shares are entitled to receive certain information, including information relating to:

- an amendment of the company's bylaws;
- an increase or reduction in our share capital;
- the approval of annual financial statements;
- an issue of debt securities;
- a transformation, merger or spin-off; and
- winding-up and liquidation and other major corporate actions.

### **Restrictions on Foreign Investment**

Foreign investors may freely invest in shares of Spanish companies. Foreign investments in shares must be reported to the Spanish Registry of Foreign Investments after the transaction has taken place and must be reported both prior and subsequent to the investment, if the investor is a resident of a tax haven (as defined under Spanish law). No prior notification is required, however, if (i) the investments consist of the acquisition of transferable securities, either issued or offered publicly or traded on a secondary market; or (ii) the shareholding is less than 50% of the share capital of the Spanish company.

Regulations in addition to those described above apply to investments in certain specific sectors, including air transport, radio and television.

### ***Exchange Control Regulation***

Receipts, payments or transfers between non-residents and residents of Spain must be made through registered entities such as banks and other financial institutions duly registered with the Bank of Spain and/or the Spanish Securities Market Commission or through bank accounts opened with foreign banks or foreign branches of such registered entities, or in cash or by check payable to bearer. All receipts, payments or transfers which exceed €6,000 if made in cash or by check payable to bearer, must be reported to the Spanish exchange control authorities. All receipts, payments or transfers which exceed €12,500, if made through a registered entity, must also be reported to the Spanish exchange control authorities.

Except as stated above, official consent is not required under Spanish law or regulations for any foreign investment in ordinary shares.

### **Pre-emption Rights and Increase of Share Capital**

#### ***Pre-emption Rights***

Pursuant to Spanish corporate law, shareholders and holders of convertible bonds have pre-emption rights to subscribe for any new ordinary shares issued by us and for bonds convertible into ordinary shares. However, a resolution passed at a general shareholders' meeting may waive such pre-emption rights. Our bylaws provide that the general shareholders' meeting may, upon passing a resolution approving a capital increase or an issue of fixed income convertible securities, agree to waive totally or partially the pre-emption rights attributable to shareholders and holders of convertible bonds.

Pre-emption rights may be waived under special circumstances if preceded by a shareholders' resolution in accordance with Article 159 of Spanish Corporations Act (Texto Refundido de la Ley de Sociedades Anónimas).

Furthermore, pre-emption rights will not be available in the event of an increase in capital to meet the requirements of a convertible bond issue or a merger in which ordinary shares are issued as consideration. Pre-emption rights are transferable, and may be of value to existing shareholders because

new ordinary shares may be offered for subscription at prices lower than prevailing market prices. The issue of ordinary shares upon exercise of pre-emption rights to persons resident outside of Spain may be restricted by the securities laws of the jurisdictions in which such persons are resident or where the ordinary shares are delivered.

### ***Increase in Capital***

The general shareholders' meeting may delegate to the board of directors the power to increase our share capital, on one or more occasions, up to a specified maximum without the need for previous consultation with the general shareholders' meeting. A delegation of this kind is subject to the following limitations under Spanish corporate law;

- the aggregate increases approved by the board may not exceed half of the share capital in issue at the time the power is delegated by the general shareholders' meeting;
- the shares must be fully paid up in cash at the time of issue; and
- any such increases must be approved by the board within five years from the date of delegation by the general shareholders' meetings.

The general shareholders' meeting may also authorize the board of directors to issue any debt securities, to execute a resolution previously adopted by the general shareholders' meeting to issue any debt securities or to execute a resolution previously approved in its basic terms by a general shareholders' meeting to convert convertible securities into ordinary shares. Additionally, the general shareholders' meeting may delegate other powers to the board of directors, such as the power to modify the face value of the ordinary shares.

Under Spanish corporate law, the general shareholders' meeting may also delegate to the board of directors of a company the power to set the date within a specified term for the execution of a resolution previously passed by the general shareholders' meeting to increase or decrease the company's share capital.

## **C. Material Contracts**

Set forth below is a description of our material contracts. In addition to these material contracts, in the ordinary course of our business, we are party to a number of agreements with, amongst others, construction, equipment and programming suppliers.

### **d) Senior Bank facilities**

#### **The 2001 Senior Bank Facility**

On August 8, 2001, the ONO Group, as guarantor and borrower, entered into an agreement with a series of international banks as arrangers of a senior bank facility to provide financing of up to €800 million to fund our network construction, capital expenditure and working capital requirements. On February 13, 2003 the parties amended the facility to, among others, reduce the total amount available to €750 million, obtain the arrangers' approval of a new business plan, amend certain financial covenants, and impose a new covenant on capital expenditure. On February 14, 2005 the 2001 Senior Bank Facility was fully refinanced by the 2005 Senior Bank Facility. On that date the 2001 Senior Bank Facility was fully repaid and cancelled.

#### **The 2005 Senior Bank Facility**

On February 9, 2005, Cableuropa and Retecal as borrowers and Cableuropa, Retecal and their subsidiaries as guarantors, entered into an agreement with a series of banks as arrangers of a Senior Bank Facility to provide financing of up to €1,250 million (€50m of which were in the form of Bank Guarantees).

Under the Senior Bank Facility agreement, the borrowers must fulfill a number of conditions to have borrowing availability, including certain representations and warranties, one of which is the absence

of material adverse changes in the business condition or operating results of any member of the ONO Group.

The facility was mainly intended to fund the refinancing of the 2001 Senior Bank Facility, the refinancing of Retecal's former Senior Bank Facility, the refinancing of certain bank guarantees counterguaranteeing part of our subsidized financing and to fund our network construction, capital expenditure and working capital requirements in accordance with the agreed business plan. In November 2005 the 2005 Senior Bank Facility was fully refinanced by the New Senior Bank Facility, and was fully repaid and cancelled.

### **The New Senior Facility**

On October 27, 2005, certain members of the ONO Group, as guarantors and borrowers, entered into a Senior Bank Facility (the "New Senior Facility") with, among others, ABN Amro Bank N.V., Sucursal en España, Calyon, Sucursal en España, Fortis Bank, S.A./N.V. and Banco Santander Central Hispano, S.A., acting as bookrunners and Banco Español de Crédito, as agent, to provide financing of up to €3,100 million to refinance certain of our indebtedness, fund our working capital requirements, make investments in fixed assets and fund a portion of the Auna Acquisition.

Under the New Senior Facility, the borrowers must fulfill a number of conditions to borrowing availability, including certain representations and warranties, including the absence of material adverse changes in the business condition or operating results of any member of the ONO Group and no early termination event shall have occurred and be continuing. No assurance can be given that such conditions to borrowing will be fulfilled or that funds under the facility agreement will be made available to us. As of December 31, 2005 we had an outstanding balance of €1,821 million drawn under the New Senior Facility (excluding the bank guarantees Facility S, see below).

*The Facilities.* There are six separate facilities:

- Facility A is a term loan facility in a maximum aggregate amount of €1,000 million, and is subdivided into three subtranches:
  - Subtranche A1 has a maximum aggregate amount of €150 million, which was made available to partially fund the Auna Acquisition, partially refinance Auna's existing indebtedness and for our general corporate purposes;
  - Subtranche A2 has a maximum aggregate amount of €450 million, which was made available to partially fund the Auna Acquisition, partially refinance Auna's existing indebtedness, partially refinance our existing indebtedness, fund the redemption in full of the 2011 Notes and which can be used for our general corporate purposes; and
  - Subtranche A3 has a maximum aggregate amount of €400 million, which can be used for our general corporate purposes;
- Facility B is a term loan facility in a maximum aggregate amount of €550 million, and is subdivided into two subtranches:
  - Subtranche B1 has a maximum aggregate amount of €200 million, which was made available to partially fund the Auna Acquisition; and
  - Subtranche B2 has a maximum aggregate amount of €350 million, which was made available to partially fund the Auna Acquisition and partially refinance Auna's existing indebtedness;
- Facility C is a revolving credit facility in a maximum aggregate amount of €500 million, which can be used to fund the payment of the deferred Auna Acquisition price and for our general corporate purposes;
- Facility D is a term loan facility in a maximum aggregate amount of €550 million, which was made available to be used to partially refinance our existing indebtedness;
- Facility I is a term loan facility in a maximum aggregate amount of €400 million, which was made available to partially refinance our existing indebtedness; and
- Facility S is a bank guarantees facility, for which the maximum aggregate amount on account or principal guaranteed may not exceed €100 million. Facility S was made available to be used to

replace, in whole or in part, our existing bank guarantees, and to guarantee certain financing from governmental entities.

The total amount outstanding under the facilities may not exceed €3,100 million.

*Maturity/Availability.* Facility A matures on December 31, 2011; subtranche A1 was borrowed in full as part of the Auna Acquisition; subtranche A2 is available until May 15, 2006 and subtranche A3 is available until June 30, 2007; Facility B matures on June 30, 2012 and was borrowed in full as part of the Auna Acquisition; Facility C matures on December 31, 2012 and is available until one month prior to the maturity date; Facility D matures on December 31, 2013 and was borrowed in full as part of the Auna Acquisition; Facility I matures on December 31, 2012 and was borrowed in full as part of the Auna Acquisition; and Facility S matures on December 31, 2013 and is available until December 31, 2006.

*Interest/Fees.* Facilities A, B, C, D and I bear interest at a rate equal to the aggregate of a margin and EURIBOR. In respect of Facilities A, B, C and I, the margin was 2.25% per annum until March 31, 2006, after which the margin is adjusted quarterly, as the case may be, pursuant to the following scale:

<b>Total Debt to Consolidated Annualized EBITDA Ratio</b>	<b>Margin</b>
Above 6.00 .....	2.25%
Above 5.00 but not exceeding 6.00 .....	2.00%
Above 4.00 but not exceeding 5.00 .....	1.75%
Above 3.00 but not exceeding 4.00 .....	1.50%
Not exceeding 3.00 .....	1.25%

In respect of Facility D, the margin was 2.75% per annum until March 31, 2006, after which the margin is adjusted quarterly, as the case may be, pursuant to the following scale:

<b>Total Debt to Consolidated Annualized EBITDA Ratio</b>	<b>Margin</b>
Above 5.00 .....	2.75%
Above 4.00 but not exceeding 5.00 .....	2.50%
Not exceeding 4.00 .....	2.25%

Bank guarantees under Facility S bear interest at a rate equal to the margin applicable to Facility A.

There is also a commitment fee payable on each facility which accrues on a daily basis and is payable quarterly in arrears and is calculated on the undrawn and uncanceled portion of the relevant facility.

If the trustee for the Notes issued in 2004 fails to accede to the Intercreditor Agreement following a Repayment Event (see Intercreditor Agreement below), the margin applicable to each of Facilities A, B, C, D, I and S will increase by 0.375% per annum until the earlier of the trustee acceding to such Intercreditor Agreement and the occurrence of a release event.

*Repayment.* Advances under Facility C must be repaid on the last day of the relevant interest period, provided, that if a notification is not made to repay such an advance, such advance shall automatically be rolled over into the next interest period. Advances under Facility D must be repaid in full on its final maturity date. Advances under Facility A must be repaid in accordance with an agreed repayment schedule as set forth below:

<b>Date</b>	<b>Percentage of Facility A to be Repaid</b>	<b>Cumulative Percentage to be Repaid</b>
December 31, 2007 .....	2.00%	2.00%
June 30, 2008 .....	3.00%	5.00%
December 31, 2008 .....	5.00%	10.00%
June 30, 2009 .....	10.00%	20.00%
December 31, 2009 .....	10.00%	30.00%
June 30, 2010 .....	15.00%	45.00%
December 31, 2010 .....	15.00%	60.00%
June 30, 2011 .....	20.00%	80.00%
December 31, 2011 .....	20.00%	100.00%

Advances under Facility B must be repaid in accordance with an agreed repayment schedule as set forth below:

<b>Date</b>	<b>Percentage of Facility B to be Repaid</b>	<b>Cumulative Percentage to be Repaid</b>
June 30, 2008 .....	1.00%	1.00%
December 31, 2008 .....	4.00%	5.00%
June 30, 2009 .....	5.00%	10.00%
December 31, 2009 .....	5.00%	15.00%
June 30, 2010 .....	10.00%	25.00%
December 31, 2010 .....	15.00%	40.00%
June 30, 2011 .....	15.00%	55.00%
December 31, 2011 .....	20.00%	75.00%
June 30, 2012 .....	25.00%	100.00%

Advances under Facility I must be repaid in accordance with an agreed repayment schedule as set forth below:

<b>Date</b>	<b>Percentage of Facility I to be Repaid</b>	<b>Cumulative Percentage to be Repaid</b>
June 30, 2009 .....	5.00%	5.00%
December 31, 2009 .....	5.00%	10.00%
June 30, 2010 .....	10.00%	20.00%
December 31, 2010 .....	10.00%	30.00%
June 30, 2011 .....	15.00%	45.00%
December 31, 2011 .....	15.00%	60.00%
June 30, 2012 .....	20.00%	80.00%
December 31, 2012 .....	20.00%	100.00%

*Financial Covenants.* The financial covenants under the New Senior Facility require, among other things: maintenance of a minimum total interest coverage ratio; maintenance of a maximum consolidated leverage ratio (on a last quarter annualized basis); maintenance of a maximum senior leverage ratio (on a last quarter annualized basis); maintenance of a debt service coverage ratio of at least 1.05x after June 30, 2008; and that our capital expenditures are tested each financial quarter, with capital expenditures not to exceed €880 million in 2006 and €520 million in 2007.

The table below sets forth the minimum total interest coverage ratio, the maximum consolidated leverage ratio and the maximum senior leverage ratio under the New Senior Facility for the fourth quarter of each financial year indicated.

<b>Financial Year End</b>	<b>Total Interest Coverage Ratio</b>	<b>Consolidated Leverage Ratio</b>	<b>Consolidated Senior Leverage Ratio</b>
2005.....	2.00x	7.00x	5.25x
2006.....	2.00x	7.00x	5.25x
2007.....	2.75x	6.00x	4.50x
2008.....	3.25x	5.00x	3.50x
2009.....	3.50x	3.50x	3.00x
2010 and thereafter .....	3.50x	3.00x	3.00x

*Guarantees.* Cableuropa and Auna have jointly and severally guaranteed all amounts owed under the New Senior Facility on a senior basis. In addition, other subsidiaries of Cableuropa that are material subsidiaries will be required to guarantee the New Senior Facility in the future.

*Security.* The New Senior Facility is secured by a first-ranking pledge over all the share capital of Cableuropa, Auna, Netco Redes and Factoria de Canales and certain other first-ranking pledges over credit rights of any holding company of Cableuropa and certain subordinated creditors. The New Senior Facility will also be secured by a first-ranking pledge over all the share capital of any subsidiary that becomes a "Material Subsidiary" (as defined in the New Senior Facility) during the time that any amounts are outstanding under the New Senior Facility.

*Other.* The New Senior Facility also contains other terms, including terms providing for: voluntary prepayment (subject to payment of breakage costs if prepayment is not made at the end of an interest period); mandatory prepayment in certain circumstances, including certain asset sales, an initial public offering and the generation of consolidated excess cash flow; covenants that, among other things, limit the incurrence of additional indebtedness, asset sales, sale and leaseback arrangements, acquisitions, the making of loans and guarantees, prepayment of other indebtedness, investments, dividends and future capital expenditure; covenants that, among other things, require the obligors to maintain their existence, comply with laws and regulations and maintain insurances; and early termination events in certain circumstances, including a cross-default to certain other debt of Cableuropa and its subsidiaries. A copy of the New Senior Facility is available in the Investors Relations section of our website.

**e) Subordinated facilities**

**The Subordinated Facility**

On October 27, 2005, certain members of the ONO Group, as guarantors and borrowers, entered into a Subordinated Facility with Banco Santander Central Hispano, S.A., ABN Amro Bank N.V., Sucursal en España, Calyon, Sucursal en España, and Fortis Bank, S.A./N.V., London Branch as bookrunners and Fortis Bank S.A./N.V., London Branch, as agent, to provide up to €110 million in financing. As of September 30, 2005 on a pro forma basis, we had a balance of €110 million drawn under the Subordinated Facility.

The Subordinated Facility was intended to fund our general corporate purposes and the acquisition of loans provided to Auna by its former shareholder.

*Maturity/Availability.* The facility was fully drawn on November 4, 2005 and matures on May 15, 2014.

*Interest/Fees.* The advances under the Subordinated Facility bear interest at a rate equal to the aggregate of a margin and EURIBOR. From the signing date until two years following the signing date, the margin is 6.50% per annum. Thereafter, the margin is equal to the lesser of: (i) the sum of the margin applicable to Tranche D under the New Senior Facility plus 3.00% per annum or (ii) the average spread to worst on the 2014 10.5% Notes due 2014 for the three business days immediately preceding the second anniversary of the signing date.

*Repayment.* The entire amount outstanding under the Subordinated Facility is due and payable on May 15, 2014.

*Financial Covenants.* The financial covenants under the Subordinated Facility require, among other things: maintenance of a minimum total interest coverage ratio; maintenance of a maximum consolidated leverage ratio; maintenance of a maximum senior leverage ratio (on a last quarter annualized basis); and that the amount of our capital expenditures are tested each financial quarter. These financial covenants have been set with 15% headroom above those in the New Senior Facility.

*Guarantees.* Cableuropa, Auna, Netco Redes and Factoría de Canales have jointly and severally guaranteed all amounts owed under the Subordinated Facility on a senior subordinated basis. In addition, other subsidiaries of Cableuropa that are material subsidiaries will be required to guarantee the Subordinated Facility in the future.

*Other.* The Subordinated Facility also contains other terms, including terms providing for: voluntary prepayment (subject to funding broken funding costs if prepayment is not made at the end of an interest period); mandatory prepayment in certain circumstances, including certain asset sales, an initial public offering and the generation of consolidated excess cash flow; covenants that, among other things, limit the incurrence of additional indebtedness, asset sales, sale and leaseback arrangements, acquisitions, the making of loans and guarantees, prepayment of other indebtedness, investments, dividends and future capital expenditure; covenants that, among other things, require the obligors to maintain their existence, comply with laws and regulations and maintain insurances; and events of default in certain circumstances, including cross-default of certain other debt of Cableuropa and its subsidiaries.

## **The Participative Loan**

On October 27, 2005, certain members of the ONO Group, as guarantors and borrowers, entered into a Participative Loan with FOND-ICO, Fondo de Capital Riesgo, as lender, to provide up to €20 million in financing. As of December 31, 2005, we had a balance of €20 million drawn under the Participative Loan.

The Participative Loan has covenants and other provisions substantially identical to those of our Subordinated Facility. The Participative Loan is deeply subordinated debt by operation of law and matures on May 15, 2007, but may be renewed annually at the option of the borrower, with a final maturity date of May 15, 2014.

## **Subordinated Bridge Facility**

In October 2005 Cableuropa also arranged a bridging loan for €270 million with various financial institutions. This Subordinated Bridge Loan was fully repaid and cancelled with no premium from the funds obtained 8% Notes due 2014 issued in February 2006.

## **f) Senior Subordinated Notes**

### **2010 Notes**

ONO Finance Plc (“ONO Finance”) completed an offering of high yield notes in June 2000. ONO Finance issued €200,000,000 14% Notes due 2010. The 2010 Notes were guaranteed on a subordinated basis by Cableuropa and its subsidiaries.

On July 15, 2005, we redeemed €43.9 million aggregate outstanding principal amount at a redemption price of €1,070 per €1,000 principal amount so redeemed, plus accrued and unpaid interest. On August 30, 2005, we redeemed the remaining outstanding principal amount of 2010 Notes, at redemption price of €1,070 per €1,000 principal amount so redeemed, plus accrued interest.

In connection with the 2010 Notes, ONO Finance and the ONO Group entered into a Multi-Borrower Credit Facilities (MBCF) to on-lent the proceeds of this issue to the ONO Group. The MBCF was cancelled at the same time of the redemption of the 2010 Notes.

### **2011 Notes**

ONO Finance Plc completed an offering of high yield notes in February 2001. ONO Finance Plc issued dollar- and euro-denominated units. Each dollar unit consisted of one U.S. \$1,000 principal amount 14% note due 2011 and one dollar equity value certificate. Each euro unit consisted of one €1,000 principal amount 14% note due 2011 and one euro equity value certificate (see Equity Value Certificates below).

Pursuant to the requirements of the New Senior Facility, we were required to redeem the 2011 Notes in full on or prior to December 31, 2006. ONO Finance Plc issued an irrevocable notice of redemption for all of the outstanding 2011 Notes on December 22, 2005. On February 15, 2006 ONO Finance Plc redeemed all of the outstanding bonds issued in February 2001 (which consisted of €8,038,000 and \$58,920,000). The bonds were cancelled at their first call date with a premium of 7%. The redemption was financed through the New Senior Facility.

In connection with the 2011 Notes, ONO Finance and the ONO Group entered into a Multi-Borrower Credit Facilities (MBCF) to on-lent the proceeds of this issue to the ONO Group. The MBCF was cancelled at the same time of the redemption of the 2011 Notes.

## **10.5% Notes and the Floating Rate Notes due 2014**

ONO Finance Plc completed an additional offering of high yield Notes in May 2004. ONO Finance Plc issued €180 million 10.5% Senior Notes due 2014 (“10.5% Notes due 2014”) and €100 million Floating Rate Senior Notes due 2014 (“Floating Rate Notes due 2014”, and together with the 10.5% Notes due 2014, the “2014 Notes”). The Floating Rate Notes due 2014 bear interest at a rate of EURIBOR plus a margin of 8.5% per annum, calculated quarterly. These Notes are guaranteed by Cableuropa, Auna and Netco Redes.

Interest on the 10.5% Notes due 2014 is paid semi-annually on May 15 and November 15 of each year. Interest on the Floating Rate 2014 Notes is paid quarterly on February 15, May 15, August 15 and November 15 of each year. The Floating Rate Notes due 2014 are redeemable, at ONO Finance Plc's option, in whole or in part, at any time on or after May 15, 2006, at 103% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after May 15, 2009. The 10.5% Notes due 2014 are redeemable, at ONO Finance Plc's option, in whole or in part, at any time on or after May 15, 2009, at 105.25% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after May 15, 2012. Prior to May 15, 2009, ONO Finance may redeem all or part of the 10.5% Notes due 2014 at a redemption price of 100% of principal plus accrued and unpaid interest and the applicable "make whole" premium. Prior to May 15, 2009, ONO Finance II may redeem up to 35% of the 2014 Notes with the proceeds of certain public equity offerings.

These Notes are senior unsecured obligations of ONO Finance Plc and rank junior to all of its future secured indebtedness and equally with all of its future senior unsecured indebtedness and senior to any of its future subordinated indebtedness. The guarantees of these 2014 Notes given by Cableuropa, Auna and Necto Redes are senior subordinated obligations and rank junior to all of our existing and future senior indebtedness and equally with all of our existing and future senior subordinated indebtedness.

It is expected that the Trustee for the 2014 Notes will accede to the intercreditor agreement upon the occurrence of a Repayment Event (see definition below under the "Intercreditor Agreement" description). In the event the Trustee for the 2014 Notes does not so accede, there will be a step-up in interest rates under the New Senior Facility.

#### **The 8% Notes due 2014**

On February 7, 2006 ONO Finance II Plc ("ONO Finance II") completed the offering of our €270 million 8% senior subordinated notes due 2014 ("8% Notes due 2014").

The Notes will mature on May 16, 2014 at their principal amount plus accrued and unpaid interest to the maturity date unless redeemed prior thereto. The Notes will bear interest at the rate of 8% per annum. Interest is payable semi-annually on May 15 and November 15 of each year, commencing on May 15, 2006, provided that interest on the period beginning November 15, 2013 will end on and include May 16, 2014. The 8% Notes due 2014 are redeemable, at ONO Finance II's option, in whole or in part, at any time on or after May 15, 2009, at 104% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after May 15, 2012. Prior to May 15, 2009, ONO Finance II may redeem all or part of the Notes at a redemption price of 100% of principal plus accrued and unpaid interest and the applicable "make whole" premium. Prior to May 15, 2009, ONO Finance II may redeem up to 35% of the 8% Notes due 2014 with the proceeds of certain public equity offerings.

The Notes are to be unsecured senior obligations of ONO Finance II and will rank equally with all of its other unsecured senior indebtedness. The Notes are guaranteed on a senior subordinated basis by Cableuropa, Auna and Netco Redes as to the payment of principal, premium, if any, interest and other amounts payable under the Notes. Under certain circumstances, such guarantees will be released and replaced by a guarantee from Cableuropa's parent company.

The proceeds of the 8% Notes due 2014 were used to repay in full the €270 million Subordinated Bridge Loan incurred by Cableuropa as part of the Auna Acquisition.

We entered into a Note Proceeds Loan with ONO Finance II, pursuant to which the gross proceeds of the Notes were lent to Cableuropa.

#### **The Note Proceeds Loans**

The Issuers of the Notes (ONO Finance and ONO Finance II) and the ONO Group entered into the Note Proceeds Loans, pursuant to which the issuers lent to the ONO Group an amount equal to the gross proceeds from the offerings of the 10.5% Notes due 2014, the Floating Rate Notes due 2014 and 8% Notes due 2014. The ONO Group appointed Cableuropa to act as its agent in connection with the Note Proceeds Loans.

### *Principal, Maturity and Interest*

The Note Proceeds Loans specify the amount of initial loans provided on the closing date to the borrowers. Thereafter, at Cableuropa's discretion as agent, loans may be prepaid by a borrower so long as such amount is reborrowed immediately by another borrower. Thus the Note Proceeds Loans will remain fully drawn during their term and the note guarantors of the Notes will at all times until repayment of the Notes owe the full principal amount on the Notes. Amounts drawn under the Note Proceeds Loans accrue interest at fixed rates that match the principal and interest accrued on the Notes. Amounts due under the Note Proceeds Loans will be payable by the borrowers to the Issuers in order that the Issuers, upon receipt of such amounts, will be able to satisfy its obligations to pay principal and interest on the Notes. Amounts due under the Note Proceeds Loans are payable to the Issuers concurrently with the Issuers' obligations to make payments in respect of the Notes. Accordingly, the Note Proceeds Loans contain provisions that match the optional and compulsory redemption provisions contained in the indentures governing the Notes. In addition, the Note Proceeds Loans provide for a loan fee to be charged to the borrowers, which will be used to pay the corporate maintenance and other expenses of the Issuers. The Note Proceeds Loans also provide for the payment of such additional amounts as may be necessary so that the net amount received by the Issuers will not be less than amounts which the Issuers is entitled to receive if certain taxes or other payments were not required.

### *Joint and Several Liability of the Borrowers*

Under the Note Proceeds Loans, the borrowers are jointly and severally liable to the Issuers to pay principal, interest and any other amounts due.

### *Subordination*

The Note Proceeds Loans are subordinated to the senior debt of the borrowers to the same extent and in the same manner as the note guarantees and rank *pari passu* in right of payment with the Subordinated Facility. In the case of insolvency of the borrowers under the Insolvency Law, claims from the Note Proceeds Loans may rank junior to contractually subordinated claims.

The Note Proceeds Loans provide that during the continuance of any default with respect to any designated senior debt, including the New Senior Facility, pursuant to which the maturity thereof may be accelerated immediately without further notice or the expiration of any applicable grace period, the borrowers will be prohibited from making any payments pursuant to the Note Proceeds Loans for a period (a "payment blockage period"), commencing on the receipt by Cableuropa of a written notice of such default from the representative of the creditors of such designated senior debt specifying an election to effect a payment blockage period and ending 179 days thereafter, unless the payment blockage period is terminated earlier.

### *Covenants*

The Note Proceeds Loans provide that the borrowers will comply with all covenants and other agreements contained in the relevant Existing Notes applicable to Cableuropa and its restricted subsidiaries, as the case may be.

### *Events of Default*

Any event of default under the relevant Existing Notes will also constitute an event of default under the Note Proceeds Loans.

### **Intercreditor Agreement**

Within 30 days after the latest of (i) the establishment of a holding company of Cableuropa that is a subsidiary of GCO, (ii) the guarantee of the Notes offered hereby on a senior unsecured basis by such holding company and (iii) the redemption, repurchase or maturity of all of the 2011 Notes (a "Repayment Event"), the trustee under the indenture for the Notes will accede to the intercreditor agreement dated October 27, 2005 (the "Intercreditor Agreement"), between, amongst others, Cableuropa, certain lenders under the New Senior Facility, the Subordinated Facility and the Participative Loan, Banco Español de Crédito, S.A., as agent for the lenders under the New Senior Facility, Fortis Bank, S.A./N.V., London Branch as agent for the lenders under the Subordinated Facility and Banco Español de Crédito, S.A., as

security agent and intercreditor agent (the "Intercreditor Agent"). It is expected that the trustee under the indenture for the 2014 Notes will accede to the Intercreditor Agreement at such time. The Intercreditor Agreement establishes the relative rights of, among others, the noteholders of the 8% Notes due 2014, the noteholders of the 10.5% Notes due 2014 and the Floating Rate Notes due 2014 (upon accession), the creditors under the Participative Loan, the creditors of the Subordinated Facility and the creditors of the New Senior Facility.

#### *Order of Priority and Application of Proceeds*

The Intercreditor Agreement provides for the following order of priority to apply to the satisfaction of the obligations of Cableuropa, ONO Finance Plc, ONO Finance II, Auna and any future obligors under indebtedness that is subject to terms of the Intercreditor Agreement (each an "Obligor"):

- first, in payment of all amounts payable to the security agent (for its own account and in its capacity as agent of the New Senior Facility) pursuant to the New Senior Facility;
- second, in payment of the following, on a *pari passu* basis: (a) debt owed to the lenders under the New Senior Facility (together with certain hedge debt, the "Senior Debt"), (b) any amounts owed to the trustee of the 2014 Notes and the Notes offered hereby, (c) any amounts owed to the agent of the Subordinated Facility and (d) certain other administrative expenses relating to debt which is subordinated to Senior Debt;
- third, in payment of certain hedging amounts to certain hedge entities;
- fourth, on a *pro rata* basis, in payment of debt owed to the lenders under the Notes and the Subordinated Facility (the "Subordinated Debt");
- fifth, in payment of debt owed to lenders under the Participative Loan; and
- sixth, in payment of the surplus to the Obligators.

In the event of the bankruptcy of any Obligor, each creditor will be required to pay any sum received or recovered by it, from any of the Obligators or any third party on account of any Senior Debt or Subordinated Debt, to a bank account specified by the Intercreditor Agent, and such sums will be applied in accordance with the order of priority described above.

In the event of the bankruptcy of any Obligor, the order of priority described above will apply among the creditors, regardless of the payment distribution provided by trustees in bankruptcy, the creditors, general meeting or any composition agreement. In the event that any creditor's rights are declared subordinated for purposes of insolvency proceedings, however, the creditors that are parties to the Intercreditor Agreement agree that, in respect of their internal relations, such creditor so subordinated shall not receive amounts that would otherwise be required to re-establish its relative position under the Intercreditor Agreement.

#### *Repayment Event*

Repayment event means, from among the following circumstances, the later of (a) the creation of MidCo by GCO and the transfer to MidCo of GCO's entire interest in the capital stock of Cableuropa; (b) the grant by MidCo of a non-subordinated, unsecured personal guarantee securing the 2014 Notes or, if earlier, the full redemption of the 2014 Notes; and (c) (i) the redemption, cancellation or maturity of all the outstanding 2011 Notes; or (ii) any amendments to the indentures for the 2011 Notes to reflect the terms established in the Indentures for the Notes relating to the "Subsidiary Guarantees" applicable after a Repayment Event as a consequence of the redemption, cancellation or maturity of the 2011 Notes.

#### *Payment Blockage prior to a Repayment Event*

Prior to a Repayment Event, certain payment blockage provisions apply, including (and subject to certain limitations):

- prohibitions on payment in respect of any Subordinated Debt if (i) a payment default under the Senior Debt has occurred and is continuing beyond the applicable grace periods or (ii) any other default occurs under the Senior Debt and the maturity of such Senior Debt is accelerated or becomes payable upon demand (until

such time as the default has been cured or waived or the Senior Debt has been paid in full in cash), unless majority approval of the lenders under the Senior Debt (the "Senior Creditors") is received; and

- during the continuance of any default under Senior Debt that permits the Senior Creditors to accelerate its maturity or declare such debt payable on demand, restrictions on the ability of an Obligor to pay Subordinated Debt (a "payment blockage") if the Senior Creditors provide a payment blockage notice.

Such payment blockage is effective until the earliest of (i) 179 days after the payment blockage notice is given, (ii) such default giving rise to the payment blockage notice is no longer continuing, (iii) the receipt of written notice from the Senior Creditors terminating such payment blockage and (iv) the repayment in full of the Senior Debt.

At the end of the payment blockage period, the Obligors may resume paying the Subordinated Debt. Not more than one payment blockage notice with respect to the same default, or any other events of default existing and known to the person giving the payment blockage notice at the time of such notice, or any other events of default resulting from the occurrence which gave rise to the first event of default, may be given during any consecutive 360-day period unless such event of default or other events of default have been cured or waived for a period of at least 90 consecutive days.

If any Subordinated Debt is accelerated on or before the date when the Senior Debt is discharged, the Obligors may not pay such Subordinated Debt until ten business days after the Senior Creditors receive notice of such acceleration, and any such payments after such period remain subject to the Intercreditor Agreement.

#### *Payment Blockage after a Repayment Event*

After a Repayment Event, certain payment blockage provisions apply, including (and subject to certain limitations):

- prohibitions on payment in respect of any Subordinated Debt if a payment default under the Senior Debt has occurred and is continuing beyond any applicable grace periods; and
- prohibitions on payments in respect of any Subordinated Debt if any other default occurs and is continuing under the New Senior Facility that permits the lenders thereunder to accelerate its maturity and such Senior Creditors provide the creditors of the Subordinated Debt (the "Subordinated Creditors") with a payment blockage notice.

Such prohibitions on payment will terminate at such time as (X) in the case of a payment default, when such default is cured or waived, or (Y) in the case of a non-payment default, the earlier of (i) the date on which such non-payment default is cured or waived, (ii) the date of discharge of the Senior Debt, (iii) the date when the Subordinated Creditors receive notice that the payment blockage notice has been revoked and (iv) 179 days after the date the payment blockage notice is received, unless the maturity of any Senior Debt has been accelerated.

At the end of the payment blockage period, the Obligors may resume paying the Subordinated Debt. Not more than one payment blockage notice with respect to the same default, or any other events of default existing and known to the person giving the payment blockage notice at the time of such notice, or any other events of default resulting from the occurrence which gave rise to the first event of default, may be given during any consecutive 360-day period unless such event of default or other events of default have been cured or waived for a period of at least 90 consecutive days.

#### *Turnover of Subordinated Debt*

If (i) any Subordinated Creditor receives or recovers a payment or distribution of any kind in respect or on account of any Subordinated Debt which is prohibited pursuant to the Intercreditor Agreement, or which exceeds the amount such Subordinated Creditor is properly entitled to pursuant to the application of proceeds provisions of the Intercreditor Agreement (ii) any Subordinated Creditor receives or recovers proceeds pursuant to any enforcement action which is not permitted under the Intercreditor Agreement, (iii) any company of the ONO Group makes any payment or distribution of any kind whatsoever in relation to the purchase or other acquisition of any Subordinated Debt that is not permitted by the Intercreditor Agreement or (iv) any Subordinated Debt is discharged by set-off, combination of accounts or otherwise which is not permitted by the Intercreditor Agreement, and the Subordinated Creditors have actual

knowledge that such payment is prohibited by the Intercreditor Agreement, then the recipient or beneficiary of such payment will hold the payment on account and for the benefit of the Intercreditor Agent on behalf of all of the creditors thereunder, and upon written request, will deliver the amounts so held to the Intercreditor Agent for application of such proceeds in accordance with the order of priority provisions of the Intercreditor Agreement. If no sums are due for payment in respect of the Senior Debt at such time, but such amounts may fall due in the future, the funds will be placed in a blocked account for future application towards the repayment of Senior Debt.

*Grant of Senior Guarantee upon and after a Repayment Event*

Upon and after a Repayment Event, a wholly owned subsidiary of GCO ("Midco") is required by the Intercreditor Agreement to fully and unconditionally guarantee, on an unsecured, senior, joint and several basis, the full payment of any amounts due from the Obligors under any Subordinated Debt. Midco is also required to agree that such obligations in respect of the Subordinated Debt may be extended or renewed, in whole or in part, without notice or further assent from Midco, and that Midco shall remain bound by the Intercreditor Agreement notwithstanding any such extension or renewal.

*Release of Subordinated Guarantees and Accession of Midco as Borrower upon and after a Repayment Event*

Upon and after a Repayment Event, each Obligor (other than Midco) which is a guarantor under any Subordinated Debt (a "Subordinated Guarantor") shall automatically and unconditionally be released from all obligations under its guarantee thereunder (a "Subordinated Guarantee"), and such Subordinated Guarantee shall terminate and be discharged and be of no further force and effect, concurrently with any sale by way of enforcement by the Senior Creditors of a security interest (an "Enforcement Sale") of (i) all the capital stock of such Subordinated Guarantor or any parent company of such Subordinated Guarantor or (ii) all or substantially all of the assets of such Subordinated Guarantor, in each case so long as:

- (1) the proceeds of such Enforcement Sale are in cash (or substantially all in cash) and are applied in accordance with the Intercreditor Agreement;
- (2) such Subordinated Guarantor is released from its obligations in respect of all other debt that is subordinated or junior in right of payment to the Subordinated Debt (subject to certain exceptions); and
- (3) such Enforcement Sale is made pursuant to either a public auction or a competitive bid process to obtain the best price reasonably available given the then-current condition, earnings, business, assets and prospect of such Subordinated Guarantor and its subsidiaries.

Upon and after a Repayment Event, and concurrently with an Enforcement Sale of the capital stock of Cableuropa or all (or substantially all) of the assets of Cableuropa, Cableuropa's obligations under certain Subordinated Debt (including the Subordinated Facility, the Notes and the Note guarantees) will be automatically and unconditionally assumed by Midco and Cableuropa will cease to be the borrower thereunder (subject to certain requirements).

*Petition for Bankruptcy of the Obligors*

Prior to the filing of a petition for bankruptcy of any of the Obligors by any creditor (a "filing creditor") that is a party to the Intercreditor Agreement:

- such creditor shall communicate its intention to the Intercreditor Agent five business days prior to the filing of such petition;
- the Intercreditor Agent shall promptly notify the other creditors party to the Intercreditor Agreement; and
- if other creditors receiving notice of the proposed petition notify the filing creditor, such filing creditor shall make its filing together with any other creditors that want to join such filing.

**g) Equity value certificates**

In connection with the issue of the 2009 Notes issued in 1999 and the 2011 Notes issued in 2001, ONO Finance Plc issued Equity Value Certificates (“EVC”).

**The 2009 EVCs**

In 1999, together with the issue of the same number of high yield Notes that have been completely cancelled, ONO Finance issued 275,000 dollar and 125,000 euro denominated equity value certificates which originally evidenced the right to receive the cash value of 13.82121693 shares of Cableuropa in dollars, and of 14.67260467 shares of Cableuropa in euro, respectively, considering €1.00 par value shares and subject to adjustment in certain circumstances.

**The 2011 EVCs**

At the same time of its issue of the 2011 Notes, ONO Finance issued 200,000 dollar and 150,000 euro denominated equity value certificates which originally evidenced the right to receive the cash value of 48.98512580 shares of Cableuropa in dollars, and of 45.98831311 shares of Cableuropa in euro, respectively, considering €1.00 par value shares and subject to adjustment in certain circumstances.

The 2009 and 2011 EVCs are due to be paid in 2009 and 2011, respectively, although prepayment may be triggered under certain circumstances such as an IPO of Cableuropa. The 2009 and 2011 EVCs are guaranteed by Cableuropa on a senior subordinated basis.

Following the Auna Acquisition process, the value of the EVCs on the balance sheet of Cableuropa as at December 31, 2005 was increased to €35.5 million.

GCO currently owns in the region of 50% of the total EVCs outstanding.

**D. Exchange Controls**

There are no foreign exchange controls currently in force that restrict the import or export of capital or that affect the remittance of interest or other payments to holders of Notes who are non-residents of Spain.

There are no limitations relating to non-residents of Spain on the right to be a holder of, or to vote in respect of the Notes under Spanish law currently in force or in Cableuropa’s memorandum or articles of association.

**E. Taxation**

Noteholders are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the country of which they are resident, of a purchase of Notes including, without limitation, the consequences of receipt of interest and premium, if any, and sale or redemption of the Notes or any interest therein.

**F. [Reserved]**

**G. [Reserved]**

**H. [Reserved]**

**I. Subsidiary Information**

For information on our subsidiaries, please see the section entitled Item 18. “Financial Statements”.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk represents the risk of changes in the value of financial instruments, derivative or non-derivative, caused by fluctuations in foreign currency exchange rates and interest rates.

It is our treasury policy to monitor and manage exposure to variable interest rate risk and foreign currency exchange rate risk by managing the amount of our outstanding variable interest bearing debt and foreign currency liabilities. In order to reduce such interest rate risk and foreign currency exchange rate exposure, and as market conditions warrant, we and our affiliates may enter into currency or interest rate hedging transactions and may purchase or trade our Notes from time to time in privately negotiated or open market transactions using funds available to us.

### *Interest Rate Risk*

As of December 31, 2005, borrowings under the New Senior Facility, the Subordinated Facility, the Subordinated Bridge Facility and the Participative Loan bear interest at a floating rate determined by reference to EURIBOR plus a margin. In addition, on May 7, 2004 ONO Finance plc issued €100 million of Floating Rate Notes, priced at three months EURIBOR plus a margin, the proceeds of which were lent to us on substantially the same terms. Accordingly, we have significant exposure to risk due to fluctuations of interest rates.

Under the terms of our New Senior Facility we were committed to cover, by the end of April 2006, approximately 50% of our interest rate exposure under tranches A, B, D and I of the New Senior Facility for at least three years, of which €500 million was covered at December 31, 2005 pursuant to an interest rate swap agreement that we entered into on July 20, 2005. In addition, by April 30, 2006 we had covered an additional €800 million exposure pursuant to various interest rate swap agreements entered into February and April.

The table below shows the variable interest debt as of December 31, 2005.

<i>Data in € million</i>	<b>Interest rate <sup>(1)</sup></b>	<b>Expected maturity date</b>					<b>Subsequent years</b>	<b>Total debt</b>
		<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>		
New Senior Facility	E+2.25%	-	6.4	53.2	159.2	313.8	1,288.4	1,821.0
Subordinated Facility	E+6.50%	-	-	-	-	-	110.0	110.0
Participative Loan	E+6.50%	-	-	-	-	-	20.0	20.0
Subordinated Bridge Loan <sup>(2)</sup>	E+6.75%	-	-	-	-	-	270.0	270.0
Floating Rate Notes due 2014	E+8.5%	-	-	-	-	-	100.0	100.0
Other credit facilities	E+1-2%	60.1	5.1	3.9	2.4	1.9	4.9	78.4
<b>Variable interest debt</b>		<b>60.1</b>	<b>11.5</b>	<b>57.1</b>	<b>161.6</b>	<b>315.7</b>	<b>1,793.2</b>	<b>2,399.4</b>

(1) Interest rate referenced to Euribor plus a margin

(2) Cancelled with the issue of €270 million 8% Notes due 2014 in February 2006.

### *Currency Risk*

Our operations are not generally subject to currency risk as our revenues and expenses are denominated in euros. In addition, all of our indebtedness is denominated in euros except for the US dollar tranche of our 2011 Notes. As described above on February 15, 2006, ONO Finance Plc redeemed and cancelled all of the outstanding bonds issued in February 2001 (which consisted of €8,038,000 and \$58,920,000).

### **New Accounting Standards**

No new Spanish generally accepted accounting standards have been issued that may significantly affect the ONO Group's financial statements.

ITEM 12. [RESERVED]

ITEM 13. [RESERVED]

ITEM 14. [RESERVED]

ITEM 15. [RESERVED]

ITEM 16. [RESERVED]

A. [Reserved]

B. [Reserved]

**C. Principal Accountant Fees and Services**

Following is a summary of the fees to our independent external auditors for the years ended December 31, 2004 and 2005:

<i>Data in € thousand</i>	<b>2004</b>	<b>2005</b>
	<u>Actual Fees</u>	<u>Actual Fees</u>
Audit Services	183	414
Other audit Services	405	387
Non-audit services	-	3,676
<b>Total fees</b>	<u><b>588</b></u>	<u><b>4,477</b></u>

Fees for other audit services consist mainly of accounting consultations and audits, reviews of internal controls and advice on accounting control policies, procedure and standards. In 2004 “Other audit services” also include fees related to our offer and sale of Notes in May 2004. In 2005, fees included in the hedging “Non-audit services” are rendered in connection with the integration of Auna and the transformation of the group.

D. [Reserved]

E. [Reserved]

*PART III*

ITEM 17. [RESERVED]

ITEM 18. **FINANCIAL STATEMENTS**

See our audited Consolidated Financial Statements, and the notes thereto, included as an annex to this Report in Annex A.

**Annex A.**

**Audited Consolidated Financial Statements of Cableuropa, S.A.U. and  
Subsidiaries as of December 31, 2005 together with the Auditor report.**

**CABLEUROPA, S.A.**

Audit report on the consolidated annual accounts 2005

**A free translation of the audit report on the 2005 consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails**

## AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the sole shareholder of Cableuropa, S.A.

1. We have audited the consolidated annual accounts of Cableuropa, S.A. and its subsidiaries (Grupo Cableuropa) consisting of the consolidated balance sheet as at 31 December 2005, the consolidated profit and loss account and the related notes to the annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.
2. In accordance with Spanish corporate law, the Company's Directors present, for comparative purposes, the figures for 2004 relating to each item in the 2005 consolidated balance sheet, and consolidated profit and loss account. Our opinion refers solely to the 2005 annual accounts. On March 18, 2005 we issued our audit report on the consolidated 2004 annual accounts, in which we expressed an unqualified opinion.
3. In our opinion, the accompanying consolidated annual accounts for the year 2005 present fairly, in all material respects, the consolidated financial position of Grupo Cableuropa, S.A. and its subsidiaries at December 31, 2005 and the consolidated results of its operations for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with generally accepted accounting principles that, except for the change of the accounting criteria mentioned in note 3.j) of the accompanying notes, with which we concur, has been applied on a basis consistent with that of the preceding year.
4. The accompanying consolidated Directors' Report for 2005 contains the information that the parent company's Directors consider relevant to the consolidated companies' position, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' Report coincides with that of the consolidated annual accounts for 2005. Our work as auditors is limited to review of the Director's Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the group companies' accounting records.

PricewaterhouseCoopers Auditores, S.L.



Alan D'Silva  
Partner

17 April 2006

**CABLEUROPA, S.A.U. AND SUBSIDIARIES (CABLEUROPA GROUP)**

**BALANCE SHEETS AS AT DECEMBER 31, 2005 AND 2004  
(EUR'000)**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2005</b>	<b>2004</b>
<b>Fixed assets</b>			<b>Shareholders' equity (note 11)</b>		
Start-up costs, net (note 4)	8 143	10 228	Common stock	1 087 897	891 168
Intangible assets, net (note 5)	405 915	170 719	Share premium	337 746	337 746
Tangible assets, net (note 6)	4 134 355	1 414 422	Parent company reserves	(634 081)	(295 969)
Financial assets (note 7)	1 210 716	336 957	Reserves in companies consolidated by the full consolidation method	(5 627)	(213 219)
			Net loss for the period	(467 115)	(81 179)
<b>Total fixed assets</b>	<b>5 759 129</b>	<b>1 932 326</b>	<b>Total shareholders' equity</b>	<b>318 820</b>	<b>638 547</b>
			<b>Participative loan (note 11)</b>	955 000	-
<b>Goodwill on consolidation (note 8)</b>	837	171 058	<b>Minority interests</b>	2 570	-
			<b>Negative consolidation difference (note 1)</b>	262 904	-
<b>Deferred expenses, net</b>	49 184	33 053	<b>Deferred income, net</b>	3 711	20 598
			<b>Commitments and contingencies (note 12)</b>	406 039	9 213
			<b>Long-term debt (note 13)</b>	2 649 291	1 133 329
			<b>Other long-term debt (note 14)</b>	250 794	81 855
			<b>Current liabilities</b>		
<b>Current assets</b>			Short-term debt to credit entities and state subsidiaries(note 13)	71 555	30 754
Inventories	4 164	965	Accrued interests (note 13)	8 699	15 443
Accounts receivable, net (note 9)	261 975	54 142	Short-term debt with related parties	16 610	-
Short-term investments (note 10)	2 723	9 475	Commercial suppliers	429 854	105 175
Cash	7 013	4 064	Other short-term creditors (note 15)	690 029	152 663
Accrual accounts	1 210	1	Accruals and deferred income	20 359	17 507
<b>Total current assets</b>	<b>277 085</b>	<b>68 647</b>	<b>Total current liabilities</b>	<b>1 237 106</b>	<b>321 542</b>
<b>Total assets</b>	<b>6 086 235</b>	<b>2 205 084</b>	<b>Total liabilities and shareholders' equity</b>	<b>6 086 235</b>	<b>2 205 084</b>

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

**CABLEUROPA, S.A.U. AND SUBSIDIARIES (CABLEUROPA GROUP)**

**STATEMENTS OF PROFIT AND LOSS FOR 2005 AND 2004  
(EUR'000)**

	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>
<b>Operating expenses (note 18)</b>			<b>Operating income</b>		
Cost of services	225 955	127 857	Net revenues (note 18)	773 851	443 372
Staff costs	116 744	75 213	Costs capitalized as property and equipment	30 579	19 078
Depreciation and amortization	264 384	100 839			
Changes in trade provisions	36 303	12 433			
Other operating expenses	149 799	75 534			
<b>Total operating expenses</b>	<u>793 185</u>	<u>391 876</u>	<b>Total operating income</b>	<u>804 430</u>	<u>462 450</u>
<b>Operating profit</b>	11 245	70 574			
<b>Financial expense</b>	135 277	105 632	<b>Financial income</b>	867	1 627
			<b>Net financial expense (note 18)</b>	<u>134 410</u>	<u>104 005</u>
<b>Amortisation of goodwill</b>	2 602	10 229			
			<b>Loss from ordinary activities</b>	<u>125 767</u>	<u>43 660</u>
<b>Extraordinary expense</b>	432 127	79 951	<b>Extraordinary income</b>	14 522	18 760
			<b>Net extraordinary loss (note 18)</b>	<u>417 605</u>	<u>61 191</u>
			<b>Loss before income tax and minority interests</b>	<u>543 372</u>	<u>104 851</u>
			<b>Income tax (note 17)</b>	76 015	21 475
			<b>Loss attributed to minority interests</b>	242	2 197
<b>Net profit for the year</b>	<u>          </u>	<u>          </u>	<b>Net loss for the year</b>	<u>467 115</u>	<u>81 179</u>

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

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 1. Group structure and activities

The primary activity of Cableuropa, S.A.U. and its subsidiaries ("the Group") is the development and operation of broadband cable television and telecommunications networks in Spain.

The Group, which operates under the brand name of "ONO", owns their corresponding licenses and concessions for the provision of different telecommunications, cable television, media and other services.

Cableuropa, S.A.U. was incorporated on June 2, 1992. It is domiciled at Edificio Belagua, calle Basauri 7-9, 28023, urbanización La Florida, Madrid (District of Moncloa-Aravaca), Spain.

The companies composing the Group are the following at 31 December 2005:

Operating companies:

<b>Company Name</b>	<b>Head office location</b>	<b>Direct and indirect ownership (%) December 31, 2005</b>
Auna Telecomunicaciones, S.A.U.	Barcelona	100 %
Tenaria, S.A.	Pamplona	92.81%

Other subsidiaries:

<b>Company Name</b>	<b>Head office location</b>	<b>Direct and indirect ownership (%) December 31, 2005</b>
Univertel Comunicações Universais, S.A. <sup>(1)</sup>	Portugal	100.00
NSEC International, B.V. <sup>(1)</sup>	Netherlands	100.00
Factoría de Canales, S.L. <sup>(2)</sup>	Barcelona	51.00
Madrid Sistemas de Cable, S.A. <sup>(3)</sup>	Madrid	74.00
Sevilla Sistemas de Cable, S.A. <sup>(3)</sup>	Sevilla	74.00
Netco Redes, S.A.U. <sup>(4)</sup>	Madrid	100.00
Xarxa Cinet, S.A.U. <sup>(4)</sup>	Barcelona	100.00
Estreno Digital, A.I.E. <sup>(4)</sup>	Madrid	81.04
Industrias Tormec, S.L.U. <sup>(4)</sup>	Barcelona	100.00
Lanzarote de Cable, S.L.U. <sup>(4)</sup>	Lanzarote	100.00
Telson Digital, S.A. <sup>(2)(4)</sup>	Barcelona	25.00
Cable Submarino de Canarias, S.A. <sup>(2)(4)</sup>	Tenerife	39.94

(1) Companies with no activity

(2) Companies excluded from consolidation in accordance with the relative importance principle

(3) Companies with no activity and/or in liquidation and excluded from consolidation

(4) Subsidiaries of Auna Telecomunicaciones, S.A.U.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### Changes in consolidation perimeter

During 2005 the following changes have taken place in the consolidation perimeter:

- Acquisition of Retecal.

On 1 July 2005 (with effect for accounting purposes from 1 January 2005), Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.U. and Retecal Interactiva, S.A.U. were merged with Cableuropa, S.A.U.

To carry out this operation, the Company performed a prior capital increase which was subscribed by Grupo Corporativo ONO, S.A. through the contribution of shares representing 100% of the capital of Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.U. (hereinafter Retecal), which in turn owned 100% of the capital of Retecal Interactiva, S.A.U.

The main figures on Retecal's balance sheet at January 1, 2005 were as follows:

	<b>Thousand euro</b>
	Net book value at January 1, 2005
Start-up costs	985
Intangible assets	20 490
Tangible assets	244 370
Financial assets	11 426
Deferred expenses, net	3 103
Goodwill	42
Current assets	23 157
<b>Total assets</b>	<b>303 573</b>
Participating loans	32 200
Other long term debt	3 582
Provisions for liabilities and charges	882
Long-term creditors	148 921
Current liabilities	71 003
Shareholder's equity	46 985
<b>Total liabilities</b>	<b>303 573</b>

- Acquisition of Auna Telecomunicaciones S.A.U. (hereinafter Auna Tlc).

On November 4, 2005, Cableuropa, S.A.U. acquired shares representing the entire share capital of Auna Telecomunicaciones, S.A.U. amounting to euro 2,051 million under a public deed of purchase. The purchase contract envisages the subrogation to the participating loans entered into by the vendor with Auna TLC amounting to euro 1,402 million and the subrogation to the mercantile loans

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

granted by the vendor to Auna TLC, Tenaria, S.A. and Netco Redes, S.A.U. in the amount of euro 925 million. As part of the transaction, Cableuropa, S.A.U. has acquired debt repayment commitments with various financial institutions in the Auna Group in the amount of euro 132 million.

Of the initial price of the transaction, a deferred payment was agreed of euro 214 million, falling due on January 15, 2008 and the vendor has yielded this right to Santander Central Hispano S.A (see note 14).

This operation generated a negative consolidation difference of euro 263 million resulting from the difference between the acquisition price and the realisable value of the net assets acquired.

Set out below is the net book value of Auna TLC at October 31, 2005 and the realizable value allocated to the net assets acquired, the acquisition cost and the negative consolidation difference arising from that acquisition:

	Net book value at October 31, 2005	Million euro Allocated realisable value
Start-up costs	21	14
Intangible assets	453	63
Tangible assets	2 946	2 378
Financial assets	578	1 040
Deferred expenses, net	135	19
Goodwill	81	-
Current assets	271	192
<b>Total assets</b>	<b>4 485</b>	<b>3 706</b>
Participating loans	1 402	1 402
Minority interests	3	3
Deferred income, net	3	2
Provisions for liabilities and charges	37	398
Long-term creditors	972	972
Current liabilities	888	888
<b>Total liabilities</b>	<b>3 305</b>	<b>3 665</b>
<b>Net asset value</b>	<b>1 180</b>	<b>41</b>
Value of the net assets acquired		41
Participative loans		1 402
Commercial loans		925
		<u>2 368</u>
Acquisition cost <sup>(*)</sup>		2 105
Negative consolidation difference		<u>263</u>

(\*) Includes the costs related to the acquisition

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

The negative consolidation difference was initially assigned to long-term contracts relating to the maintenance of telecommunications infrastructure and football broadcasting rights, as well as future losses associated to costs to be incurred in the integration of the acquired company.

The negative consolidation difference is provisional since it is not completed the process for evaluating the realisable values of the net assets acquired at the date of preparation of these annual accounts. The maximum term for the definitive valuation of the assets and liabilities acquired is 4 November 2006 (one year as from the control date of the acquired company).

Given the current available sources of funding, and subject to there being no material changes in the Group's operations or in the operating environment, the Group has enough financing to fund its current planned network buildout, working capital requirements through to the time when it expects to achieve positive cash-flow (see note 13).

#### **2. Basis of presentation**

##### **a) True and fair view**

The consolidated financial statements have been prepared on the basis of the accounting records of Cableuropa, S.A.U. and subsidiaries, and include all adjustments and reclassifications required for consistency with the parent company in terms of both timing and values. These financial statements are presented in accordance with the provisions of current mercantile legislation and the rules laid down in the General Accounting Plan and in Royal Decree 1815/1991 which approved the rules for the preparation of consolidated financial statements for the purpose of giving a true and fair view of the Group's consolidated net worth, financial situation and results.

The figures in these consolidated financial statements are expressed in thousand of euro unless otherwise stated.

##### **b) Consolidation principles**

The consolidated financial statements have been prepared by applying the acquisition method.

The annual accounts of Group companies used in the consolidation process are those relating to the year ended December 31, 2005 in all cases.

The results of the operations of the acquired companies have been included as from the acquisition date.

## **CABLEEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

The Company's single shareholder, Grupo Corporativo ONO, S.A. has drawn up consolidated annual accounts as of this date which reflect a loss of euro 466 million and shareholders' equity amounting to euro 272 million.

#### **c) Groupings of items**

The consolidated financial statements are presented in a summarized form and an analysis is provided in the relevant note to the financial statements.

#### **d) Uniformity**

To facilitate a uniform presentation of the items included in the consolidated financial statements, the parent company's accounting principles and standards have been applied to all companies included in the consolidation.

#### **e) Comparability**

The following events in 2005 should be considered when comparing information:

- The results of Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.U. and Retecal Interactiva, S.A.U. have been included as from 1 January 2005, which is the date for accounting purposes of their merger with Cableuropa, S.A.U. (see note 1).
- Acquisition of the entire capital of Auna Telecomunicaciones S.A.U. and subsidiaries at November 4, 2005 (see note 1).
- Change in estimated amortisation period for goodwill from 20 to 8 years and from 8 to 4 years in the case of Retecal (note 3.a).
- Change in policy for recording deferred expenses arising from debt relating to the issuance of debentures and other bank loans (note 3.j).

### **3. Accounting policies**

#### **a) Goodwill and negative consolidation difference**

The positive or negative difference between the net book value of the parent company's direct or indirect shareholdings in subsidiaries and the value of the portion of the subsidiaries' net equity which is attributable to those shareholdings, adjusted for any latent capital gains or losses at the date of the acquisition is recorded as goodwill or negative consolidation difference.

Goodwill arising as a consequence of vertical mergers within the group is shown under the caption Intangible assets.

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

Up to 2004, goodwill was amortized on a straight-line basis over 20 and 8 years as this was considered to be the estimated payback period for the investments concerned. Following the recent acquisition of Auna, TLC, the recovery period for goodwill has been re-estimated from 20 to 8 years and from 8 to 4 years in the specific case of the amortisation of the goodwill relating to Retecal. These periods are those in which positive cash flows are expected to be achieved. The impact on the statement of profit and loss for the year in which this change has taken place amounts to approximately euro 60 million increase in amortization expense, approximately.

The negative consolidation difference assigned to the losses incurred by the acquired company or to the reasonable forecast of expenses relating thereto, to the extent that this forecast is realised, is taken to the statement of profit and loss.

#### **b) Balances and transactions between companies included in the consolidation**

All significant balances and transactions between consolidated companies are eliminated in the consolidation process.

#### **c) Minority interests**

Third party holdings in the common stock, reserves and results of the consolidated subsidiaries are recorded under Minority interests in the consolidated balance sheet and under Loss attributed to minority shareholders in the consolidated statements of profit and loss, respectively, up to the limit of their contributions.

#### **d) Foreign exchange rate options**

Foreign exchange rate options are stated at the lower of acquisition cost or market value of the premium cost at the balance sheet date.

#### **e) Inventories**

Inventories are stated at their weighted average acquisition cost and mainly correspond to customer premises equipment and broadcast rights to be used within one year, which are amortized on a straight-line basis into cost of services.

#### **f) Start-up costs**

Start-up costs mainly include leasehold improvements and cost related to capital increases, as well as other related legal and registration costs.

All capitalized start-up costs are amortized on a straight-line basis over a period of 5 years.

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

#### **g) Intangible assets**

Intangible fixed assets are recorded at their purchase cost or development cost, as applicable.

The main items included under this caption are:

- Franchise acquisition costs

Franchise acquisition costs consist primarily of costs incurred in preparing and obtaining the telecommunications and cable television licenses and concessions in the different franchise areas.

The franchise acquisition costs are amortized on a straight-line basis over 25 years.

- Computer software

Computer software acquired from third parties is recorded at cost. Computer software is amortized on a straight-line basis over a period of 4 years.

- Indefeasible rights of use and infrastructure leasing expenses

This basically relates to optical fibre licensing and telecommunications infrastructure contracts.

Costs incurred under optical fibre and telecommunications infrastructure licensing contracts are amortised on a straight line basis over the duration of the relevant contracts – 20 to 25 years – except for contracts with power companies for utilisation rights to excess fibre optic network capacity, which are amortised over a maximum of 30 years.

- Finance leases

Assets acquired under finance leases are recorded under intangible fixed assets when the terms of the lease imply that the assets should be capitalized. These are depreciated over their useful lives at the same rates as those set for similar tangible fixed assets. The related financial expense is charged to the statement of profit and loss over the term of the lease using the effective interest method.

#### **h) Tangible assets**

Tangible are stated at acquisition price or production cost, including allocable direct and indirect costs. Improvements that extend the useful life of the assets are capitalized. Costs for normal repairs and maintenance are charged to the statement of profit and loss as incurred.

## CABLEEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

When tangible assets are retired or otherwise disposed of, the related asset and accumulated depreciation accounts are adjusted accordingly.

Estimated useful lives of tangible assets are shown below:

	<u>Years</u>
Network and technical equipment	10-35
Duct	35
Electricity and switching equipments	10-15
Customer premise equipment	6-7
Computer hardware	4-5
Other tangible assets	5-13

The Group evaluates the carrying value of all assets whenever events or circumstances indicate the carrying value of assets may exceed their recoverable amounts. An impairment loss is recognized when the estimated future cash flows expected to result from the use of an asset are less than the carrying value of the asset.

#### i) Financial assets

This caption mainly includes tax credits that have been recognized by the Group subsidiaries in their financial statements. Tax credits are accounted for as financial investments when they are expected to be recovered beyond one year.

In accordance with the prudence principle, these tax credits have been quantified assuming a future nominal corporate income tax rate of 30%, based on a recent government proposal concerning a decrease in the CIT rate (see note 24, post-balance-sheet events).

Tax credits expected to be recovered within one year, if any, are presented as Accounts receivable.

#### j) Deferred expenses, net

These expenses mainly relate to loan inception fees, commissions and other expenses involved in subscribing long-term debt and other financial instruments. Until 2004, they were recorded on a straight-line basis over the duration of the related debts, similar to the effective interest method.

During 2005 the Group changed the accounting policy for these items, which are now expensed in the year in which they are incurred. This decision has generated an extraordinary expense of euro 93.6 million, which is reflected in the statement of profit and loss.

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

The expense for guarantees granted by GCO, the Company's shareholder, on the secured preferential loan, with duration of seven years, has been recorded under deferred expenses, and it is being amortised on a straight-line basis over the term of the guarantee.

#### **k) Short and long term creditors**

Short and long term liabilities are stated at the amount at which they are to be repaid at maturity and any implicit interest included either in their face value or repayment value is recorded under deferred expenses.

Liabilities are classified in the Group's balance sheet according to their maturity. Short term liabilities are those with maturity within one year and long term liabilities those maturing beyond one year.

#### **l) Cross-currency swaps**

Transactions aimed to eliminate or significantly reduce exchange rate risks on asset and liability positions are treated as hedging transactions. The gains or losses arising during the life of these transactions are accrued and taken to the statement of profit and loss together with the related gains or losses on the hedged assets or liabilities.

Transactions which are not assigned to hedge exchange rate risks are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded when the transactions are finally settled. However, if potential losses are anticipated at year-end, the related provisions are recorded with a charge to the consolidated statement of profit and loss.

#### **m) Transactions and balances denominated in foreign currencies**

Receivables and payables denominated in foreign currencies are stated at year-end exchange rates. Transactions in foreign currencies are recorded in the statement of profit and loss at the exchange rates on the dates when they occur. Realized gains, together with realized and unrealized losses on exchange, are taken to the statements of profit and loss in the year. Unrealized gains are recorded in the consolidated balance sheet as deferred income and are taken to the statement of profit and loss only when realized or to the extent that losses on exchange are recognized for the same or higher amount within each homogeneous group.

Receivable and payable balances denominated in foreign currency covered by hedging derivative financial instruments are stated at the exchange rate of the relevant instrument.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### n) Severance Payments

Severance indemnities that could be estimated are registered as expense at their estimated cost in the year in which the severance decision is taken.

#### o) Corporate income tax

Corporate income tax expense is recognized based on the reported profit or loss as adjusted for permanent differences between reported and taxable consolidated profits, and the effects of any tax credits and deductions. Deferred tax assets and liabilities arising from timing differences in the recognition of income and expense for accounting and tax purposes are recorded in the consolidated balance sheet until the underlying timing differences reverse, if the deferred tax assets are expected to be realized within a ten year period from the date on which they were generated.

#### p) Income and expenses

Income and expenses are recorded on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred. For reasons of prudence, however, the Group only records profits realized at the year end, while foreseeable risks and potential losses are recorded as soon as they are identified.

Revenues are derived, mainly, from the sale of telecommunications and cable television services to residential and business customers and from network interconnection with other operators.

Such revenues are recognized only when persuasive evidence of a sales arrangement exists, the related services have been rendered, the sales price to the customer is fixed and determinable and collectibility is reasonably assured.

#### 4. Start-up costs

	Thousand euro					
	Balance at 12.31.04	Companies incorporated in consolidation	Additions	Amortisation	Disposals	Balance at 12.31.05
Start-up costs, net	3 766	4 249	2 926	(3 504)	(3 890)	3 547
Stock issuance costs, net	6 462	11 173	32	(2 758)	(10 316)	4 596
Total start-up costs	10 228	15 425	2 958	(6 262)	(14 206)	8 143

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 5. Intangible assets

	Thousand euro						Balance at 12.31.05
	Balance at 12.31.04	Companies incorporated in consolidation	Mergers	Additions	Disposals	Transfers	
<b>Cost</b>							
Goodwill	193 334	15 103	284 309	-	(15 103)	-	477 643
Licensed assets	-	62 261	-	8 588	(1 467)	1 050	70 432
Franchise acquisition costs	12 128	727	-	1 680	(1 882)	-	12 653
Computer software	42 752	10 865	-	24 060	(8 832)	3 986	72 831
Finance leases	1 911	39 343	-	380	-	(129)	41 505
Other intangible assets	880	12 915	-	-	(11 910)	-	1 885
<b>Total cost</b>	<b>251 005</b>	<b>141 214</b>	<b>284 309</b>	<b>34 708</b>	<b>(39 194)</b>	<b>4 907</b>	<b>676 949</b>
<b>Amortization</b>							
Goodwill	(39 710)	(4 693)	(48 440)	(87 602)	4 693	-	(175 752)
Licensed assets	-	(23 670)	-	3 331	-	-	(20 339)
Franchise acquisition costs	(6 848)	(425)	-	(2 026)	1 794	-	(7 505)
Computer software	(31 039)	(6 786)	-	(12 347)	8 207	(1 247)	(43 212)
Finance leases	(141)	(6 935)	-	(1 475)	-	50	(8 501)
Other intangible assets	(811)	(10 552)	-	(189)	10 091	-	(1 461)
<b>Total accumulated amortization</b>	<b>(78 549)</b>	<b>(53 061)</b>	<b>(48 440)</b>	<b>(100 308)</b>	<b>24 785</b>	<b>(1 197)</b>	<b>(256 770)</b>
<b>Provisions</b>	<b>(1 737)</b>	<b>(4 389)</b>	<b>-</b>	<b>(9 875)</b>	<b>1 737</b>	<b>-</b>	<b>(14 264)</b>
<b>Total intangible assets, net</b>	<b>170 719</b>	<b>83 764</b>	<b>235 869</b>	<b>(75 475)</b>	<b>(12 672)</b>	<b>3 710</b>	<b>405 915</b>

The intangible fixed asset provisions mainly derive from the valuation of the net assets acquired from Auna Tlc as explained in note 1.

The change in policy for estimating the amortisation period for goodwill described in note 3.a) in 2005 has increased the amortisation charge by euro 60.2 million.

The caption Licensed assets basically relates to long-term contracts with power companies for rights of utilisation of excess optic fibre capacity and other rights of utilisation and exploitation.

At December 31, 2005 intangible fixed assets with an acquisition cost of euro 34.4 million have been fully amortised, relating mainly to computer software.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 6. Tangible assets

	Thousand euro					
	Balance at 12.31.04	Companies incorporated in consolidation	Additions	Transfers	Disposals	Balance at 12.31.05
<b>Cost</b>						
Land and natural assets	-	15 758	-	-	-	15 758
Network and technical equipment	1 658 804	3 092 440	38 155	370 257	(41 089)	5 118 567
Computer hardware	49 856	122 116	6 717	845	(423)	179 111
Other tangible assets	16 078	90 890	2 291	8 147	(74)	117 332
Total operating tangible assets	<u>1 724 738</u>	<u>3 321 204</u>	<u>47 163</u>	<u>379 249</u>	<u>(41 586)</u>	<u>5 430 768</u>
Payments on account and assets in course of construction	42 404	312 758	261 091	(380 177)	(7 743)	228 333
Total cost	<u>1 767 142</u>	<u>3 633 962</u>	<u>308 254</u>	<u>(928)</u>	<u>(49 329)</u>	<u>5 659 101</u>
<b>Depreciation</b>						
Network and technical equipment	(243 441)	(760 828)	(146 914)	11	8 478	(1 142 694)
Computer hardware	(38 594)	(95 263)	(8 565)	201	-	(142 221)
Other tangible assets	(7 373)	(34 847)	(2 335)	(15)	26	(44 544)
Total accumulated depreciation	<u>(289 408)</u>	<u>(890 938)</u>	<u>(157 814)</u>	<u>197</u>	<u>8 504</u>	<u>(1 39 459)</u>
<b>Provisions</b>	<u>(63 312)</u>	<u>(121 115)</u>	<u>(27 169)</u>	<u>(2 979)</u>	<u>19 288</u>	<u>(195 287)</u>
Total tangible assets, net	<u>1 414 422</u>	<u>2 621 909</u>	<u>123 271</u>	<u>(3 710)</u>	<u>(21 537)</u>	<u>4 134 355</u>

The tangible fixed asset provisions mainly derive from the valuation of the net assets acquired from Auna Tlc as explained in note 1.

As of December 31, 2005 the Group has in place insurance policies to cover potential risks affecting its tangible assets used in operations.

As of December 31, 2005 there are fully depreciated tangible assets with an original cost of euro 122.2 million mainly corresponding to Computer hardware

As of December 31, 2005 the Group had outstanding firm purchase orders with its main equipment and construction suppliers for euro 39.3 million.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 7. Financial assets

	Thousand euro				
	Balance at 12.31.04	Companies incorporated in consolidation	Additions	Disposals	Balance at 12.31.05
Holdings in Group companies	-	4 573	2 382		6 955
Tax credit	242 756	1 076 365	20 335	(184 397)	1 155 059
Tax credit with related companies	36 516	-	55 681	( 13 171)	79 206
Deferred tax asset with related companies	56 393	-	-	(56 393)	-
Other financial assets	1 292	3 072	542	(3)	4 903
Provisions	-	(35 227)	-	-	(35 227)
	<u>336 957</u>	<u>1 048 783</u>	<u>78 940</u>	<u>(253 964)</u>	<u>1 210 716</u>

Disposals for the year result from the Group's decision to value tax credits and deferred tax assets at 30% (see note 24, post-balance-sheet events) and from the mergers carried out during the year. See movements in tax credits and deferred tax assets in note 17.c).

#### 8. Goodwill on consolidation

	Thousand euro				
	Balance at 12.31.04	Companies included in consolidation	Additions	Transfers (note 5)	Balance at 12.31.05
<b>Companies</b>					
Valencia de Cable S.A.U. <sup>(1)</sup>	68 669	-	-	(68 669)	-
Mediterránea Norte Sistemas de Cable S.A.U. <sup>(1)</sup>	59 180	-	-	(59 180)	-
Mediterránea Sur Sistemas de Cable S.A.U. <sup>(1)</sup>	83 561	-	-	(83 561)	-
Retecal, Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.U.	-	72 899	-	(72 899)	-
NSEC B.V.	1 148	-	-	-	1 148
Univertel Comunicações Universais S.A.	878	-	-	-	878
<b>Total cost</b>	<u>213 436</u>	<u>72 899</u>	<u>-</u>	<u>(284 309)</u>	<u>2 026</u>
Less amortization	(41 624)	(4 649)	(2 602)	48 440	(435)
<b>Provision</b>	<u>(754)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(754)</u>
	<u>171 058</u>	<u>68 250</u>	<u>(2 602)</u>	<u>(235 869)</u>	<u>837</u>

<sup>(1)</sup> Companies merged with Cableuropa, S.A.U. with effect for accounting purposes from 1 January 2005.

Transfers from goodwill on consolidation to intangible assets result from the merger of mentioned companies with effect for accounting purposes from 1 January 2005.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 9. Accounts receivable

	Thousand euro	
	2005	2004
Receivable from related parties (note 19)	1 610	1 995
Trade accounts receivable and other debtors	467 379	46 866
Taxes receivable (note 17.e)	47 741	18 524
Less: Allowance for doubtful accounts	(254 755)	(13 243)
	<u>261 975</u>	<u>54 142</u>

#### 10. Short-term investments

	Thousand euro	
	2005	2004
Short-term investment portfolio <sup>(1)</sup>	2 202	2 202
Short-term loans and interest to Group companies (note 19)	15	-
Short-term interest on fixed-income securities	1 324	-
Option	682	-
Other short-term loans	1 384	9 475
Provisions	(2 884)	(2 202)
	<u>2 723</u>	<u>9 475</u>

(1) Investment in Madrid Sistemas del Cable, S.A. and Sevilla Sistemas del Cable, S.A., which are dormant companies that are not consolidated and are fully provided for at December 31, 2004 and 2003.

#### Option

In May 2005, the Group purchased two euro call / dollar put options with an exercise value of USD 1.18 per euro maturing on February 10, 2006, covering a sum of USD 63 million. This amount was used to repurchase notes denominated in dollars that mature in February 2006 (see note 24, post-balance-sheet events).

The cost of said options, euro 0.7 million, was fully provided for at the year end. The purchase of these options generated an extraordinary profit of euro 13.9 million which was recorded in 2005 (note 18.g).

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 11. Shareholders' equity

Movements in the accounts included under shareholders' equity in 2005 are as follows:

	Thousand euro (except "Number of shares")						
	Common stock	Number of shares	Share premium	Parent company reserves	Reserves (deficit) in consolidated companies	Loss attributable to parent company	Total
Balance at 12.31.04	891 168	891 167 929	337 746	(295 969)	(213 219)	(81 179)	638 547
Movements due to merger	-	-	-	(207 592)	207 592	-	-
Loss distribution	-	-	-	(81 179)	-	81 179	-
Capital increases	196 729	196 728 848	-	(49 341)	-	-	147 388
Net loss for the year	-	-	-	-	-	(467 115)	(467 115)
Balance at 12.31.05	<u>1 087 897</u>	<u>1 087 896 777</u>	<u>337 746</u>	<u>(634 081)</u>	<u>(5 627)</u>	<u>(467 115)</u>	<u>318 820</u>

##### a) Common stock

The parent company's capital at December 31, 2005 amounts to euro 1,087,896,777 represented by 1,087,896,777 ordinary shares in a single class and series in the form of accounting entries with a par value of one euro each, fully subscribed and paid up. The following capital increase took place during 2005:

- Capital increase through non-cash contributions. On 11 March 2005 the decisions taken on 17 February 2005 by the single shareholder were executed in a public deed. This capital increase amounted to euro 196,728,848 through the issue of 196,728,848 new ordinary shares with a par value of one euro each.

The new shares were fully subscribed and paid up by the single shareholder through the following non-cash contributions:

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

Shares in	<u>% of total common stock</u>	<u>Thousand euro</u>
Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.U.	100,00	164 529
		<u>164 529</u>

Loan	<u>Granted on</u>	<u>Thousand euro Amount</u>
Participating loan granted by GCO to Retecal	9 February 2004	32 200
		<u>32 200</u>

#### b) Shareholders

The single shareholder of the parent company at December 31, 2005 is Grupo Corporativo ONO, S.A.

The shareholders of Grupo Corporativo ONO, S.A. as at December 31, 2005 are as follows:

	Total ownership %
Spanish Telecommunications Limited, S.à.r.l. <sup>(1)</sup>	24.7%
Capital Riesgo Global, SRC S.A. <sup>(2)</sup>	15.7%
Grupo Multitel, S.A. <sup>(3)</sup>	12.8%
Val Telecomunicaciones, S.L. <sup>(4)</sup>	8.8%
Sodinteleco, S.L. <sup>(5)</sup>	7.1%
JP Morgan Partners <sup>(6)</sup>	6.4%
Providence Equity Partners <sup>(6)</sup>	6.4%
Thomas H. Lee Partners <sup>(6)</sup>	6.4%
Telco Investment Europe, S.à.r.l.	5.3%
Quadrangle Capital Partners <sup>(6)</sup>	5.1%
Capital Communications CDPQ Inc.	1.3%
	100.0%

(1) Company whose ultimate shareholders are Bank of America, GE Capital and CDPQ.

(2) Company wholly owned by Santander Central Hispano.

(3) Grupo Multitel interests are held by itself and by other affiliate companies.

(4) Company which aggregates the main former local shareholders of the Cableuropa group operators.

(5) Company which aggregates the main former shareholders of Retecal.

(6) These shares are owned by several entities participated by the above referred shareholders.

In January 2006, the single shareholder, Grupo Corporativo ONO, carried out a capital increase through the capitalisation of convertible loans which has changed the composition of the Group's shareholders (see note 24, post-balance-sheet events).

On 27 October 2005 Cableuropa, S.A.U. shares were pledged as security for the secured preferential loan described in Note 13.a).

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### c) Participative loan

On 4 November 2005 the Group received a participative loan from its single shareholder in the amount of euro 955 million to finance the acquisition of Auna Telecomunicaciones, S.A.U.

Interest on this loan, if any, are capitalised monthly and added to the principal.

#### d) Reserves (deficit) in companies consolidated by the full consolidation method

As at December 31, 2005, movements in Reserves in companies consolidated by the full consolidation method were as follows:

	Thousand euro		
	Balance at 12.31.04	Movements due to merger	Balance at 12.31.05
Mediterránea Sur Sistemas de Cable, S.A.U. (1)	65 695	(65 695)	-
Mediterránea Norte Sistemas de Cable, S.A.U. (1)	57 480	(57 480)	-
Valencia de Cable, S.A.U. (1)	84 417	(84 417)	-
Univertel Comunicações Universais, S.A.	5 746	-	5 746
NSEC International, B.V.	( 119)	-	(119)
	<u>213 219</u>	<u>(207 592)</u>	<u>5 627</u>

(1) Companies merged with Cableuropa, S.A.U. with effect for accounting purposes from January 1, 2005.

## 12.- Commitments and contingencies

	Balance at 12.31.04	Companies incorporated in consolidation	Transfers	Applications	Balance at 12.31.05
Provision for discontinuing operations in Portugal	3 628	-	-	(248)	3 380
Other provisions for liabilities and charges	<u>5 585</u>	<u>398 693</u>	<u>15 388</u>	<u>(17 007)</u>	<u>402 659</u>
	<u>9 213</u>	<u>398 693</u>	<u>15 388</u>	<u>(17 255)</u>	<u>406 039</u>

#### a) Incentive plan

In 2003 the Group launched an Incentive plan aimed to attract and retain certain key employees and directors. The eligible employees have the right, subject to certain conditions, to receive an extraordinary cash bonus after approximately three years since granted. As a result of the change ONO Group shareholders' to acquire Auna Tlc, a trigger event has occurred and the plan has become due, so the liability has been presented as short term accrual.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### b) Loyalty plan based on phantom stock options

As a result of the change in the shareholder's, as commented above, a trigger event as defined by the conditions of the phantom stock options plan has occurred, and the liability has become due. The liability to cover this obligation has been presented as short term accrual.

The Board of Directors of GCO has approved the establishment of an executive fidelity share purchase plan that will include certain current directors and senior managers of the ONO Group. This plan is currently being finalized and will provide for its members in the aggregate to be awarded a maximum of 3.75% of the share capital of Grupo Corporativo ONO.

#### c) Other provisions.

As a result of the process for defining a purchase price in the acquisition of Grupo Auna, a number of contingent liabilities have arisen as a consequence of the different commercial and technological strategies of Group ONO and the adoption of group restructuring actions, which have been duly provided for and which are recorded under Other provisions for liabilities and charges

### 13. Short and long-term debt

The detail of short and long-term debt as at December 31, 2005 is as follows:

kind of debt	Average interest rate 2005	Max. available at 12.31.05	Thousand euro maturities					Subsequent years	Total debt	Interest payable
			2006	2007	2008	2009	2010			
<b>Amounts owed to credit institutions</b>										
Senior bank facility	4,65 %	1 821 000	-	6 420	53 180	159 200	313 800	1 288 400	1 821 000	497
Mortgage	3,53 %	4 167	567	584	603	623	615	1175	4 167	150
Leasing	4,85 %		5 377	4 521	3 348	1 825	1 272	3 678	20 021	-
Subordinated loan	8,74 %	110 000	-	-	-	-	-	110 000	110 000	56
ICO loan	8,77 %	20 000	-	-	-	-	-	20 000	20 000	10
Bridging loan	8,99 %	270 000	-	-	-	-	-	270 000	270 000	138
Other credit facilities	3,00 %	98 500	54 184	-	-	-	-	-	54 184	325
Total debt with credit institutions			60 128	11 525	57 131	161 648	315 687	1 693 253	2 299 372	1 176
<b>Other debts</b>										
Debt related to the issuance of notes			-	-	-	-	-	342 042	342 042	7 523
Subsidized loans			11 427	9 933	16 769	14 943	12 268	14 092	79 432	-
Total other debt			11 427	9 933	16 769	14 943	12 268	356 134	421 474	7 523
<b>Total long- and short-term debt</b>			<b>71 555</b>	<b>21 458</b>	<b>73 900</b>	<b>176 591</b>	<b>327 955</b>	<b>2 049 387</b>	<b>2 720 846</b>	<b>8 699</b>

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### a) Senior bank facility

In February 2005 the Group arranged a senior credit facility with various national and international banks for a total of euro 1,250 million to finance network construction, capital expenditure and the Group's working capital requirements.

The previous facility of euro 800 million was cancelled on the same date and also was cancelled euro 150 million facility held by Retecal.

In October 2005 the credit facility granted in February was cancelled and a new one was granted for euro 3,100 million, maturing on December 31, 2013. As in the previous cases, the availability of the funds is structured in various tranches. As at December 31, 2005, euro 1,821 million had been drawn down.

The purpose of this facility is to refinance the above bank loans and certain bank guarantees related to subsidized financing, and the partial financing of the purchase of the Auna group and the availability of funds to meet working capital and investment needs.

#### *Interest and expenses*

The senior bank facility bears interest at a floating rate determined by reference to EURIBOR plus a margin. An availability fee was also paid, which accrues quarterly, in addition to credit agency fees.

The inception and subscription expenses related to the first credit facility of euro 800 million were recorded in 2001 as Deferred expenses and were written off as extraordinary expenses in the amount of euro 18.2 million when the credit facility was discontinued.

The inception and subscription expenses related to the second credit facility of euro 1,250 million were recorded in February 2005 as Deferred expenses and were written off as extraordinary expenses in the amount of euro 24.4 million in November, when the credit facility was discontinued.

The inception and subscription expenses related to the third credit facility of euro 3,100 million were recorded as extraordinary expenses amounting to euro 86.1 million in the statement of profit and loss.

#### *Interest rate hedging operations*

In July 2005 the parent company concluded an operation to cover fluctuations in interest rates during the next five years with respect to euro 500 million syndicated loan.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### *Guarantees and conditions*

As security for the senior bank facility, the lenders thereunder have been granted a first-ranking security interest in:

- shares of Cableuropa, S.A.U. owned by Grupo Corporativo ONO, S.A., and the shares in Auna Telecomunicaciones, S.A.U owned by Cableuropa, S.A.U.
- intra-group loans, financial accounts and insurance policy collection rights.

The borrowers have jointly and severally guaranteed all amounts owed under the senior bank facility on a senior basis.

The senior bank facility also contains other financial and non-financial covenants which, among other things, establish conditions for the incurrence of additional indebtedness, assets sales, sale and leaseback arrangements, acquisitions, the making of loans and guarantees, prepayment of other indebtedness, investments, dividends, entry into material contracts, voluntary prepayment and mandatory prepayment in certain circumstances.

#### b) Subordinated loan

In October 2005, as part of the financing required to acquire the Auna Group, the Group concluded a subordinated loan agreement for euro 110 million. The loan matures on 15 May 2014 and bears variable interest linked to the Euribor plus a margin.

#### c) Participating loan

In October 2005, as part of the financing required for the acquisition of Auna TLC, the Group arranged a participating loan with FOND-ICO for euro 20 million, maturing on 15 May 2007. The loan is renewable annually at the request of Cableuropa until 15 May 2014, and bears variable interest linked to the Euribor plus a margin.

#### d) Bridging loan

In October 2005 the Group also arranged a bridging loan for euro 270 million with various financial institutions. The loan bears variable interest at the Euribor plus a margin and is regarded as a bridging loan which will be required until the additional financing is obtained through the issuance of new notes (see note 24, post-balance-sheet events .).

#### e) Debt related to Notes issues

Debt related to Notes issues corresponds to the multi borrower credit facilities between the Group and ONO Finance, PLC (the issuer) in relation to the Notes issued by the latter.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

The principal activity of ONO Finance, PLC, established in the United Kingdom, is that of a finance company. ONO Finance, PLC's business is the issuance of debt securities and the on-lending of the proceeds of such debt offerings to the Group. ONO Finance, PLC is owned 2% by Cableuropa, S.A.U.

The Group is surety with respect to the contracts that govern the Note issues.

Details of outstanding Notes as of December 31, 2005 are as follows:

Issue date	Number of Notes	Face value per note	Annual interest rate	Maturity
9 February 2001	58 920	1 000 USD	14%	15 February 2011
9 February 2001	8 038	1 000 euro	14%	15 February 2011
7 May 2004	180 000	1 000 euro	10.5%	15 May 2014
7 May 2004	100 000	1 000 euro	Variable interest <sup>(1)</sup>	15 May 2014

(1) Euribor 3m + 8.5%

All coupons are payable semi-annually except for the variable rate Notes due in 2014 which are payable quarterly.

The Notes mature 10 years after each issue, but the issuer has the right, at its own discretion, to repay them in advance, subject to certain conditions, from the fifth anniversary of their issue except for the variable rate Notes due in 2014 which can be repaid in advance, subject to certain conditions, from the second anniversary of their issue.

#### Multi Borrower Credit Facilities (MBCF)

In connection with, and on the same date of, each of the Notes issues, the Group as borrower and guarantor, and the issuer as lender, entered into multi borrower credit facilities agreements to transfer the Notes proceeds to the guarantors, in return for the guarantors agreeing to reimburse the issuer with:

- the total face value of the Notes at their maturity, being the issue value of the Notes plus a management and reimbursement fee ("MRF"), that matches the Notes discounts, to be paid at maturity, and
- enough interest to cover coupon payments on the Notes plus a margin.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

During the second quarter of 2005 and as part of a refinancing process, ONO Finance PLC presented a tender offer in the open market in order to purchase 2010 Notes. This purchase was financed with the proceeds obtained from the syndicated credit facility signed in February.

Between July and August 2005, ONO Finance PLC purchased and redeemed all the outstanding 2010 Notes. Cableuropa, S.A.U. cancelled the related multi borrower credit facilities.

An analysis of the outstanding MBCF's as at December 31, 2005 is as follows:

Maturity	Currency	Euro or USD thousand (as applicable)				Euro thousand (except interest rates)		
		Principal	Share premium <sup>(1)</sup>	Repurchase Premium <sup>(4)</sup>	total debt	Total debt <sup>(2)</sup>	Annual interest rate <sup>(3)</sup>	Accrued interest expense
2011	USD	50 791	8 129	4 124	63 044	53 441	14%	3 292
2011	euro	6 929	1 109	563	8 601	8 601	14%	429
2014	euro	180 000	-	-	180 000	180 000	10.5%	789
2014	euro	100 000	-	-	100 000	100 000	Variable <sup>(5)</sup>	445
Total						<u>342 042</u>		<u>4 955</u>

- (1) On December 31, the Group cancelled all deferred expenses relating to the various note issues. As a result of this operation, the Company recorded an extraordinary loss of euro 7.5 million in the 2005 statement of profit and loss.
- (2) Notes nominated in USD have been converted applying the official exchange rate published by the ECB on December 31, 2005 of euro 1.00 = USD 1.1797.
- (3) Coupon payable on principal.
- (4) Relates to the Group intention of redeeming the 2011 Notes in advance.
- (5) Euribor 3m + 8.5%

All notes whose maturity were on 2011, were cancelled on February, 2006 (see note 24, Post-balance sheet events).

#### f) Subsidised loans

From 2001 and as part of each year's Spanish Program for the Promotion of Technology Innovation (PROFIT), the Group has obtained subsidies from the Spanish Ministry of Science and Technology to finance the development of certain technology innovation projects. These subsidies are characterized as long term loans maturing in five equal annual instalments starting on the third anniversary of the grant. These loans bear no interest and the obligations thereunder are supported by bank guarantees.

These loans expire between 2006 and 2011.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 14. Other long-term debt

This caption includes the following items:

	Thousand euro	
	2005	2004
Other long term debt	214 400	56 393
Equity value certificates (EVCs)	35 522	25 462
Other	872	-
Total	<u>250 794</u>	<u>81 855</u>

##### a) Other long term debt

This relates to the deferred payment on the acquisition of Grupo Auna (see note 1).

##### b) Equity value certificates (EVCs)

In connection with the 2009 and 2011 notes issues, ONO Finance, PLC issued Equivalent Value Certificates (EVC), which are guaranteed by Cableuropa, S.A.U.

As a result of the increase in Cableuropa's share price, the EVC price has also risen, leading to the allocation of euro 10 million to the 2005 statement of profit and loss.

#### 15. Other short-term creditors

	Thousand euro	
	2005	2004
Taxes payable (note 17.e)	26 813	14 149
Fixed assets suppliers	617 471	97 842
Other creditors	45 745	40 672
	<u>690 029</u>	<u>152 663</u>

#### 16. Third party guarantees and other contingent liabilities

Certain Group companies have obtained performance bonds from Spanish credit institutions to guarantee compliance with specific commitments related to network construction, among others with the Ministry of Science and Technology, City Councils and other organizations related to the cable television and telecommunications licenses.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

The breakdown of the commitments under such performance bonds is set out below:

	Thousand euro	
	2005	2004
Ministry of Industry, Tourism and Trade	95 473	27 457
City Councils and other organizations	125 158	9 124
	<u>220 631</u>	<u>36 581</u>

Due to the conversion of cable telecommunications licenses into telecommunications service licenses, the Group considers that it will be released from the need to provide a portion of these performance bonds within the short term.

Most of the bonds provided to the Ministry of Industry, Tourism and Trade relate to bank guarantees to secure the reimbursement of the subsidised financing.

#### 17. Tax situation

##### a) Tax consolidation

In 2002, Grupo Corporativo ONO, S.A., the sole shareholder of the Group's parent company presented its application to the tax authorities for the tax consolidation regime. The Group consolidates for tax purposes from January 1, 2003.

The parent company for consolidation purposes is Grupo Corporativo ONO, S.A.

##### b) Corporate income tax

Corporate income tax for the year is calculated based on book profits before taxes obtained by Group companies, as adjusted by permanent differences arising with respect to reported profits, which is considered to be taxable income, less any tax credits or deductions.

The reconciliation of taxable results and reported results at December 31, 2005 is as follows:

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

	Thousand euro		
	Increase	Decrease	Amount
Loss before taxes			(543 372)
Permanent differences:			
a) arising in individual companies	563 586	(33 464)	530 122
b) arising from consolidation adjustments	-	(203 935)	(203 935)
Tax base			<u>(217 185)</u>

Corporate income tax for 2005 amounts to euro 76 million, calculated by applying the 35% tax rate to taxable income.

#### c) Tax credits

The movement in tax credits and deferred taxes in 2005 is as follows:

	Balances at 12.31.04				Result 2005	Value adjustment	Balances at 12.31.05	
	Related companies (note 7)	Long term	Mergers	Companies included in consolidation			Related companies (note 7)	Long term (note 7)
Tax credits	36 516	299 149	(56 393)	1 076 365	76 015	(197 567)	79 026	1 155 059
Deferred taxes	-	( 56 393)	56 393	-	-	-	-	-
Total net tax credit	<u>36 516</u>	<u>242 756</u>	<u>-</u>	<u>1 076 365</u>	<u>76 015</u>	<u>(197 567)</u>	<u>79 026</u>	<u>1 155 059</u>

Balances with Group companies arise from tax consolidation.

#### d) Tax losses

At December 31, 2005 the Group has the following tax loss carry forwards to be offset by profits obtained in future years (without including those corresponding to 2005, shown in the table above).

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

Year	<u>Thousand euro</u>
1992	13
1993	207
1994	754
1995	3 122
1996	1 288
1997	5 429
1998	14 444
1999	115 936
2000	234 725
2001	328 757
2002	659 211
2003	528 381
2004	321 795
	<u>2 214 062</u>

In accordance with current legislation, tax-loss carry forwards must be offset within fifteen years from the first year profits are obtained for companies incorporated after January 1, 1996. The Directors of the Group consider that these amounts will be recovered within the deadlines established by law.

#### e) Taxes and Social Security

Short term balances between the Group and the tax authorities and Social Security as at December 31, 2005 are as follows:

	<u>Thousand euro</u>	
	<u>2005</u>	<u>2004</u>
<b>Accounts receivable from the tax authorities and Social Security (note 9)</b>		
VAT receivable	37 892	18 428
Withholdings and interim payments made	2 959	19
Other	6 890	77
	<u>47 741</u>	<u>18 524</u>
<b>Accounts payable to the tax authorities and Social Security (note 15)</b>		
VAT and Canary Islands Indirect Tax payable	9 774	10 918
Personal income tax withholdings payable	11 989	1 874
Social security payable	4 220	1 627
Other	830	-
	<u>26 813</u>	<u>14 419</u>

The Group's tax returns for most of the taxes to which it is liable are open to inspection for all years which have not become statute-barred.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

On June 29, 2005 Auna Telecomunicaciones, S.A.U. received a notification from the Spanish tax authorities that a tax inspection was to be carried out on corporate income tax for the period from January 2000 to December 2002, and on VAT and personal income tax for the periods between June 2001 and December 2002. At 31 December 2005, therefore, the Auna Group is open to inspection for all years since it was incorporated.

Parent company management does not expect any significant liabilities to arise in the event of an inspection of these years.

#### 18. Income and expenses

##### a) Revenues

	Thousand euro	
	2005	2004
Residential services		
Telephony	286 704	210 848
Television	151 651	103 990
Internet	194 295	89 588
Business and other services	141 201	38 946
	<u>773 851</u>	<u>443 372</u>

##### b) Cost of sales

Direct cost of sales mainly includes programming, interconnection and Internet connectivity expenses, and fibre, circuit and duct rentals.

##### c) Staff costs

Staff costs for 2005 and 2004 are as follows:

	Thousand euro	
	2005	2004
Wages and salaries	88 529	56 789
Employer's Social Security contributions	22 395	15 131
Other staff costs	5 820	3 293
	<u>116 744</u>	<u>75 213</u>

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

In 2005 the Group's average number of employees was as follows:

Professional category	<u>2005</u>
Executives	117
Technicians and middle management	2 940
Administrative staff	<u>1 244</u>
	<u>4 301</u>

d) Other operating expenses

	<u>Thousand euro</u>	
	<u>2005</u>	<u>2004</u>
Rental expenses and royalties	15 790	8 982
Professional services	53 052	17 161
Marketing and selling expenses	20 646	16 159
Other services	28 904	18 137
Supplies	9 244	5 908
Bank commissions	1 331	1 159
Insurance premiums	1 266	1 596
Taxes	7 550	5 122
Other	<u>12 016</u>	<u>1 310</u>
	<u>149 799</u>	<u>75 534</u>

e) Costs capitalized as property and equipment

The expenses associated with the development and construction of the Group's networks are capitalized as an addition in the cost of the network. These expenses are recorded under the heading "Costs capitalized as property and equipment" in the statements of profit and loss.

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### f) Net financial expense

	Thousand euro	
	2005	2004
<b>Financial income:</b>		
Interest on fixed-income securities	222	423
Cash-pooling interest	417	1 082
Income from long-term loans to Group companies	15	-
Other financial income	213	122
	<u>867</u>	<u>1 627</u>
<b>Less financial expense:</b>		
Losses on exchange	670	2 143
Bank commissions	4 906	9 653
Amortization of deferred expenses	7 068	57 089
Interest on financing related to Notes issues (note 13e)	49 208	29 392
Interest on senior bank facility (note 13a)	53 079	4 278
EVC revaluation (note 14.b)	10 051	-
Cash-pooling interest	-	2 081
Other financial expenses	10 295	996
	<u>135 277</u>	<u>105 632</u>
Net financial expense	<u>(134 410)</u>	<u>(104 005)</u>

#### g) Net extraordinary expense

	Thousand euro	
	2005	2004
<b>Extraordinary income:</b>		
Income from option (note 10)	13 924	-
Bad debt provision reversal	-	9 826
Reversal provisions for liabilities and charges	-	2 601
Other extraordinary income	598	6 333
	<u>14 522</u>	<u>18 760</u>
<b>Less extraordinary expense:</b>		
Repayment of debt related to Notes (note 13.a)	42 600	36 801
Commitment to repay debt related to Notes	-	9 900
Cancellation of debt inception expenses (note 13.a and 13.e)	93 578	6 191
Goodwill adjustment	10 410	-
Provisions and tangible asset disposals	68 579	23 646
Tax credit adjustment	197 567	-
Loyalty plan based on phantom stock options	7 288	-
Other extraordinary expenses	12 105	3 413
	<u>432 127</u>	<u>79 951</u>
Net extraordinary expense	<u>(417 605)</u>	<u>(61 191)</u>

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

#### 19. Balances and transactions with Group companies and related parties

The balances as at December 31, 2005 with Group companies and related parties and volumes of transactions carried out during 2005 with them are set out below:

Balances	Thousand euro				
	Accounts receivable (note 9)	Interest receivable (note 10)	Interest payable	Long term accounts payable to Group companies (note 11)	Creditors, group and related parties
Balances with Group companies					
Factoría de Canales, S.L.	825	-	-	-	1 012
Balances with related parties					
Grupo Corporativo ONO, S.A.	-	15	16	955 000	15 487
Spanish Telecommunications Limited, S.à.r.l.	332	-	-	-	111
Unión temporal de empresas <sup>(1)</sup>	62	-	-	-	-
Grupo Multitel, S.A.	391	-	-	-	-
Total balances 12.31.05	1 610	15	16	955 000	16 610

(1) Valencia de Cable, S.A., Mediterránea Norte Sistemas de Cable, S.A. and Mediterránea Sur Sistemas de Cable, S.A., Unión temporal de empresas, Ley 18/1982.

Transactions	Thousand euro	
	Services received	Services rendered
Transactions with related parties		
Factoría de Canales, S.L.	8 418	947
Grupo Corporativo ONO, S.A.	25 000	-
Total transactions in 2005	33 418	947

a) Balances and transactions with the single shareholder, Grupo Corporativo ONO, S.A.

The balances are due to the cost of guarantees assumed by the single shareholder as a result of the senior credit facilities and are allocated to the Company.

#### 20. Directors' remuneration

The amount accrued to members of the Board of Directors for fees and other remuneration in 2005 total euro 0.7 million.

#### 21. Directors' shareholdings, positions, functions and activities

In compliance with article 127 ter.4 of the Spanish Corporate Law as modified by Law 26/2003 dated July 17, 2003, aiming to improve the company's transparency, the details of the different shareholdings owned, positions and functions held by the directors of the Group's parent company in Spanish companies with the same, analogous or

## CABLEEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

complementary activity to the one carried out by the Group are set out below:

Director	Name	Activity	% holding	Position
Leopoldo Calvo Sotelo	Grupo Corporativo ONO, S.A.	Cable telecommunications	-	Member of the board of directors
Richard Alden	Grupo Corporativo ONO, S.A.	Cable telecommunications	-	CEO
	Spanish Cable Holding, S.A.	Cable telecommunications	-	CEO
John Hahn	Grupo Corporativo ONO, S.A.	Cable telecommunications	-	Member of the board of directors
	Recoletos Grupo de Comunicación, S.A.		-	Member of the board of directors
Francisco Gutiérrez Churtichaga	Grupo Corporativo ONO, S.A.	Cable telecommunications	-	Member of the board of directors
Eugenio Galdón Brugarolas	Grupo Corporativo ONO, S.A.	Cable telecommunications	-	Chairman
	Spanish Cable Holding, S.A.	Telecommunications holdings and advice	-	Chairman
	Grupo Multitel, S.A.	Telecommunications consultancy	6.78	Board member
	Gestión de Programación Audiovisual, S.L.	Telecommunications consultancy	6.62	Board member
	Cable Unión, S.L.	Telecommunications consultancy	1.69	
	Multitel Holdings, S.L.	Telecommunications consultancy	100	Sole administrator
	Multitel Consulting, S.A.	Telecommunications consultancy	100	Sole administrator
	Val Telecomunicaciones, S.L.	Telecom holding company	-	Board member
Multitel, S.à.r.l.	Holding company	100	-	

The Directors not included on the table above have declared not to have any matter to be informed in compliance with mentioned article.

#### 22. Auditors' remuneration

In compliance with additional provision 14 of Law 44/2002 (Finance Act), the fees received by PricewaterhouseCoopers for auditing and other services are set out below. All the auditors' remuneration has been previously approved by the Audit Committee of Grupo Corporativo ONO S.A.

	<u>Thousand euro</u>
	<u>2005</u>
Audit services	414
Other audit services	387
Non-audit services	<u>3 676</u>
Total	<u>4 477</u>

Fees included in the heading "Other non audit services" are rendered in connection with the integration and transformation of Auna group.

#### 23. Environmental matters

In its global operations the Group takes environmental legislation into account. The Group considers that it substantially meets environmental regulations and has procedures in place designed to encourage and assure compliance.

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)**

The Group has taken all necessary measures in relation to environmental protection and improvement and to minimising any environmental impact, in accordance with applicable legislation. During the year the Group has not made any environment-related investments, nor has it incurred expenses relating to environmental protection and improvement. It has not been considered necessary to record any provision for liabilities and charges in relation to environmental issues, since there are no contingencies or liability in this area.

#### **24. Post-balance sheet events**

##### **a) Redemption of Notes**

On 15 February 2006 the Company redeemed all Notes issued maturing in 2011.

This has consisted of repaying principle and an issue premium of USD 58.9 million plus the redemption premium of USD 4.1 million for one of the issues and euro 8 million in principal and issue premium plus a euro 0.6 million redemption premium for the other issue (note 13.e).

##### **b) Issuance of Notes February 2006**

On 15 February 2006, Ono Finance II Plc issued high-performance notes amounting to euro 270 million. The Company, which is guarantor for said Notes, has concluded a financing agreement with this entity for the same amount.

The funds obtained have been used to repay the bridging loan arranged by the Company with various institutions.

##### **c) Tax rate reduction.**

On March 10, 2006 the Spanish Cabinet approved a draft law for a partial amendment of the Corporate Income Tax Act which will be sent to the Spanish Parliament. Among other measures, the new law proposes a gradual reduction in CIT from 35% to 30%. As a result of this draft law, at the year end the Group has adjusted the recoverable value of the tax assets in line with the future tax rates.

##### **d) Capitalisation of convertible loans by the single shareholder.**

During February 2006, the single shareholder, Grupo Corporativo ONO, increased capital through the capitalisation of convertible loans in the amount of euro 1,000 million (face value plus share premium). This has led to changes in the composition of the Group's shareholders. Following the capital increase, shareholders are as follows:

## CABLEUROPA, S.A.U. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

	<u>Total ownership %</u>
Spanish Telecommunications Limited, S.à.r.l. <sup>(1)</sup>	14.9%
Capital Riesgo Global, SRC S.A. <sup>(2)</sup>	9.4%
Grupo Multitel, S.A. <sup>(3)</sup>	7.7%
Val Telecomunicaciones, S.L. <sup>(4)</sup>	5.3%
Sodinteleco, S.L. <sup>(5)</sup>	4.3%
JP Morgan Partners <sup>(6)</sup>	15.2%
Providence Equity Partners <sup>(6)</sup>	15.2%
Thomas H. Lee Partners <sup>(6)</sup>	15.2%
Telco Investment Europe, S.à.r.l.	3.2%
Quadrangle Capital Partners <sup>(6)</sup>	8.9%
Capital Communications CDPQ Inc.	0.7%
	100.0%

(1) Company whose ultimate shareholders are Bank of America, GE Capital and CDPQ.

(2) Company wholly owned by Santander Central Hispano.

(3) The Grupo Multitel, S.A. shares are held by said company and various subsidiaries.

(4) Company which aggregates the main former local shareholders of the Cableuropa group operators.

(5) Company which aggregates the main former shareholders of Retecal.

(6) These shares are held by various companies which are investees of the above-mentioned shareholders.

#### e) Redundancy proceedings

As a result of the acquisition of Auna TLS, to assure the economic feasibility of the ONO Group a redundancy plan has been presented to the Spanish labour authorities which is currently being negotiated with the workers' representatives. The plan is expected to affect a maximum of 850 workers

#### f) Hedging operations

In February 2006 the Group concluded various operations to cover fluctuations in interest rates during the next four years with respect to euro 655 million from the syndicated loan.

## **CABLEUROPA, S.A.U. AND SUBSIDIARIES(CABLEUROPA GROUP)**

### **MANAGEMENT REPORT 2005**

#### **1. Business performance**

The Group Cableuropa is the main cable operator and one of the most important group of integrated services of broadband telecommunications networks for residential and business in Spain. It offers, through its own network, direct access telephony services, cable television services and broadband internet access services. It offers its services to approximately 1.8 million residential customers and 122,000 corporate customers.

In 2005, the Group through its subsidiary, Cableuropa, S.A.U, acquired shares representing the entire share capital of Auna Telecomunicaciones, S.A.U. leading to the consolidation of the cable sector in Spain

During 2005 the Group also acquired 51% of Factoría de Canales, S.A. This acquisition entails an improvement in the quality of the content offered to our customers. Factoría de Canales currently produces eight TV channels for the Group and renders services to other TV platforms.

The most relevant milestones in 2005 were:

- Launch of video on demand services

In December 2005 the Group launched the video on demand service under the brand name "Ojo" in the areas in which Cableuropa, S.A.U. operates. This service broadens the range of services available to our customers in these areas.

- New credit facility

In October 2005, the credit facility granted in February was cancelled and a new one was granted for euro 3,100 million, maturing on December 31, 2013. As in the previous cases, the availability of the funds is structured in various tranches.

The purpose of this facility is to refinance the above bank loans and certain bank guarantees related to subsidized financing, and the partial financing of the purchase of the Auna group and the availability of funds to meet working capital and investment needs.

#### **2. Analysis of results**

##### *Operations*

Main figures obtained in 2005 are as follows

- 5,903,606 homes passed at 2005 year end
- 1,771,041 direct access customers in residential market
- 121,656 customers in business market

## **CABLEEUROPA, S.A.U. AND SUBSIDIARIES(CABLEEUROPA GROUP)**

### **MANAGEMENT REPORT 2005**

#### *Investments*

The investment of the group in fixed assets during 2005 has exceeded euro 308 million.

#### *Sales*

Net turnover of the consolidated group amounts to euro 774 million.

#### *Operating result*

Operating result has decreased from euro 71 million in 2004 to euro 11 million in 2005, due to the changes in estimations made during the year.

### **3. Own shares**

During 2005 no movements have been produced related to own shares.

### **4. Research and development**

During the year several research and development projects have been carried out, mainly relating to the voice over IP and video on demand services.

### **5. Utilisation of financial instruments**

The Group uses financial instruments to hedge interest rate and exchange rate risks that could affect its operations.

The Group has arranged the following hedging instruments at the year end:

- o Exchange rate option

In 2005, the Group purchased two euro call / dollar put options with an exercise value of USD 1.18 per euro maturing on February 10, 2006, covering a sum of USD 63 million. This amount was used to repurchase bonds denominated in dollars that mature in February 2006.

- o Interest rate hedge

In 2005, the Group concluded a swap operation to cover fluctuations in interest rates during the next five years with respect to euro 500 million syndicated loan.

During 2006, the Group concluded new swap operations to cover fluctuations in interest rates with respect to euro 655 million syndicated loan.

## **CABLEEUROPA, S.A.U. AND SUBSIDIARIES(CABLEEUROPA GROUP)**

### **MANAGEMENT REPORT 2005**

#### **6. Environmental matters**

In its global operations the Group takes environmental legislation into account. The Group considers that it substantially meets environmental regulations and has procedures in place designed to encourage and assure compliance.

The Group has taken all necessary measures in relation to environmental protection and improvement and to minimising any environmental impact, in accordance with applicable legislation. During the year the Group has not made any environment-related investments, nor has it incurred expenses relating to environmental protection and improvement. It has not been considered necessary to record any provision for liabilities and charges in relation to environmental issues, since there are no contingencies or liability in this area.

#### **7. Post-balance sheet events**

##### **a) Redemption of Notes**

On 15 February 2006 the Group redeemed all Notes issued maturing in 2011.

This has consisted of repaying principle and an issue premium of USD 58 million plus the redemption premium of USD 4.1 million for one of the issues and euro 8 million in principal and issue premium plus a euro 0.6 million redemption premium for the other issue with said maturity.

##### **b) Issuance of Notes February 2006**

On 15 February 2006, Ono Finance II Plc issued high-performance notes amounting to euro 270 million. Cableuropa, S.A.U., which is guarantor for said Notes, has concluded a financing agreement with this entity for the same amount.

The funds obtained have been used to repay the bridging loan arranged by the Group with various institutions.

##### **c) Tax rate reduction.**

On March 10 2006 the Spanish Cabinet approved a draft law for a partial amendment of the Corporate Income Tax Act which will be sent to the Spanish Parliament. Among other measures, the new law proposes a gradual reduction in CIT from 35% to 30%. As a result of this draft law, at the year end the Group has adjusted the recoverable value of the tax assets in line with the future tax rates.

##### **d) Capitalisation of convertible loans in Parent Company.**

During January 2006, the parent company, Grupo Corporativo ONO, has made a capital increase through the capitalisation of convertible loans in the amount of euro 1,000 million (face value plus share premium) This has led to changes in the composition of the Group's shareholders. Following the capital increase, shareholders are as follows:

## CABLEEUROPA, S.A.U. AND SUBSIDIARIES(CABLEEUROPA GROUP)

### MANAGEMENT REPORT 2005

	Total ownership %
Spanish Telecommunications Limited, S.à.r.l. <sup>(1)</sup>	14.9%
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JP Morgan Partners <sup>(6)</sup>	15.2%
Providence Equity Partners <sup>(6)</sup>	15.2%
Thomas H. Lee Partners <sup>(6)</sup>	15.2%
Telco Investment Europe, S.à.r.l.	3.2%
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	100.0%

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#### e) Redundancy proceedings

As a result of the acquisition of Auna Tlc, to assure the economic feasibility of the ONO Group a redundancy plan has been presented to the Spanish labour authorities which is currently being negotiated with the workers' representatives. The plan is expected to affect a maximum of 850 workers.

#### f) Hedging operations

In February 2006 the Group concluded various operations to cover fluctuations in interest rates during the next four years with respect to euro 655 million syndicated loan.