Investor release

Update to ONO Disclosure

MADRID 20 January 2011—In a separate press release earlier today, ONO announced an intended offering of €460 million equivalent of euro- and dollar-denominated Senior Notes due 2019.

The notes will be issued by a special purpose vehicle, ONO Finance II plc, and will be guaranteed on a senior basis by ONO Midco, S.A.U., and on a senior subordinated basis by Cableuropa, S.A.U. ONO Finance II plc will lend the gross proceeds of the offering to Cableuropa, which will use the gross proceeds of the offering to repay or otherwise redeem certain existing indebtedness.

Attached hereto are selected extracts from the preliminary Offering Memorandum prepared in connection with the offering.

Important Information

These materials do not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Notes referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States or to US persons unless the Notes are registered under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States.

This document is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons in (i), (ii) and (iii) above together being referred to as "relevant persons"). The securities offered are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Further information

Investor Relations
E-mail: investor.relations@ono.es
Website: http://www.ono.es/sobreono/

INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This offering memorandum contains forward looking statements. These forward looking statements include all matters that are not historical facts, including the statements under the headings "*Summary,*" "*Risk Factors,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations of ONOMidco,*" "*Business*" 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 offering memorandum. 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 offering memorandum, 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 or otherwise adversely affect holders of the Notes include, but are not limited to:

- our substantial leverage and ability to service our debts;
- all of our existing debt maturing prior to the Notes;
- our exposure to changes in interest rates;
- our incurrence of substantially more debt;
- our failure to meet our financial covenants under the Senior Facility (as described under "*Description of Other Indebtedness*");
- restrictions imposed by our debt obligations and their limitation on our ability to take certain actions;
- the effect of an adverse outcome of certain shareholder litigation;
- the effect of a further deterioration of economic conditions in Spain;
- our failure to generate sufficient cash flow to fund our operations or capital expenditures;
- competition from other companies in our industry and our ability to retain or increase our market share;
- the difficulty of predicting future demand for our services;
- our failure to introduce successfully enhanced products and services;
- our dependence on others to provide premium programming;
- our reliance on others to provide us with mission critical hardware and software;
- our ability to avoid unanticipated network downtime;
- customer churn, or the effect of customer churn, adversely affecting our business;
- our failure to retain key employees;
- our failure to maintain and upgrade our network;
- the ability of Telefónica de España, S.A.U. ("Telefónica"), the incumbent telecommunications operator, to set standards and precedents in our market that may adversely affect our business;
- the anticipated growth of the internet access, cable television and telecommunications industries in Spain;
- the effect of changes in the regulatory environment on the telecommunications and cable television industries in Spain; and
- risks relating to the structure and terms of the Notes and the Notes Proceeds Loans and legal and other considerations in connection therewith.

Consequently, our current business plan, 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. We urge you to read this offering memorandum, including the sections entitled "*Risk Factors,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations of ONOMidco,*" "*Industry*" and "*Business*" for a more complete discussion of the factors that could affect our future performance and the industry in which we operate.

Cableuropa is currently subject, with respect to the Senior Secured Notes, to the ongoing reporting requirements of the Luxembourg Stock Exchange.

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 offering memorandum, 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 in this offering memorandum.

PRESENTATION OF FINANCIAL AND OTHER DATA

In this offering memorandum, references to the "ONO Group," "ONO," "we," "us" and "our" are, as the context requires, to ONOMidco (as defined below), Cableuropa and Cableuropa's predecessors and subsidiaries. References to "ONO Finance II" are to ONO Finance II plc, the Issuer of the Notes. References to "GCO" are to Grupo Corporativo ONO, S.A., our ultimate parent company.

Financial Information

Financial Statements

ONOMidco. The Notes are guaranteed by ONOMidco on a senior basis. Cableuropa, which guarantees the Notes on a senior subordinated basis, is a wholly owned subsidiary of ONOMidco. We present in this offering memorandum ONOMidco's audited historical annual consolidated financial statements as of and for the year ended December 31, 2008 (the "2008 Audited Financial Statements") and ONOMidco's audited historical annual consolidated financial statements as of and for the year ended December 31, 2009 (the "2009 Audited Financial Statements" and, together with the 2008 Audited Financial Statements, the "Audited Financial Statements") and its unaudited historical interim consolidated financial statements as of and for the nine months ended September 30, 2010, including comparative information for 2009 (the "Unaudited Interim Financial Statements").

The Audited Financial Statements and the Unaudited Interim Financial Statements have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP and IFRS. You can find a description of the most significant differences between Spanish GAAP and IFRS in "*Summary of Significant Differences Between Spanish GAAP and IFRS*" on page S-1 of this offering memorandum.

The Issuer. This offering memorandum also contains the historical audited annual financial statements of ONO Finance II as of and for the years ended December 31, 2008 and December 31, 2009.

Change in Spanish GAAP

Our consolidated financial statements as of and for the year ended December 31, 2007 were prepared in accordance with Spanish GAAP under the General Accounting Plan approved by Royal Decree 1643/1990, of December 20, 1990 which was in force through December 31, 2007 ("Old Spanish GAAP"). Our 2008 Audited Financial Statements have been prepared in accordance with Spanish GAAP under the General Accounting Plan approved by Royal Decree 1514/2007, which came into force on January 1, 2008 ("Spanish GAAP") and are the first consolidated financial statements to be presented in accordance with such legislation. In our 2008 Audited Financial Statements, we elected to present comparative information as of and for the year ended December 31, 2007 restated from Old Spanish GAAP to Spanish GAAP (the "Restated 2007 Results"), for which purpose we prepared a balance sheet for the beginning of 2007 in accordance with the new principles and the transitional provisions of the aforementioned Royal Decree. Consequently, our transition date from Old Spanish GAAP to Spanish GAAP was January 1, 2007. For reconciling information regarding our transition from Old Spanish GAAP to Spanish GAAP, see notes 2.2.1 and 2.2.2 of the 2008 Audited Financial Statements included elsewhere in this offering memorandum.

The auditors' report included elsewhere in this offering memorandum in respect of our 2008 Audited Financial Statements has been issued only in respect of our 2008 Audited Financial Statements prepared in accordance with Spanish GAAP. We have prepared consolidated financial information under Spanish GAAP as of and for the year ended December 31, 2007 and have included such financial information, for comparative purposes only, in our 2008 Audited Financial Statements. Our auditors have not issued an auditors' report in respect of our consolidated financial statements under Spanish GAAP as of and for the year ended December 31, 2007.

Sources of Financial Information

Unless otherwise stated herein:

- All financial information as of and for the nine months ended September 30, 2010 and 2009 has been extracted without material adjustment from the Unaudited Interim Financial Statements;
- All financial information as of and for the year ended December 31, 2009 has been extracted without material adjustment from the 2009 Audited Financial Statements;
- All financial information as of and for the year ended December 31, 2008 has been extracted without material adjustment from the 2008 Audited Financial Statements; and
- All financial information as of and for the year ended December 31, 2007 has been extracted without material adjustment from the Restated 2007 Results, as set forth in the 2008 Audited Financial Statements.

Currency References

Unless otherwise indicated or otherwise required by the context, all references in this offering memorandum 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, and all references to "U.S. dollars," "dollars," "U.S.$" or "$" are to the lawful currency of the United States.

Non-GAAP Financial Measures

EBITDA, operating free cash flow and free cash flow as well as other data and certain ratios (including for the twelve months ended September 30, 2010) presented in this offering memorandum are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with, Spanish GAAP or IFRS. EBITDA, operating free cash flow and free cash flow are not measures of our financial performance or liquidity under Spanish GAAP or IFRS and should not be considered as an alternative to net income, operating profit or any other performance measures derived in accordance with Spanish GAAP or IFRS or as an alternative to cash flow from operating, investing and financing activities as a measure of our liquidity.

We believe that EBITDA, operating free cash flow and free cash flow 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), non-recurring items and minority interests. We also present EBITDA, operating free cash flow and free cash flow 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, operating free cash flow and free cash flow as a supplemental measure of our ability to service our debt.

Nevertheless, EBITDA, operating free cash flow and free cash flow 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, operating free cash flow and free cash flow do not reflect our future requirements for capital expenditures or contractual commitments;
- EBITDA and operating free cash flow do not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA and operating free cash flow 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, operating free cash flow and free cash flow do not reflect any cash requirements for such replacements;
- EBITDA, operating free cash flow and free cash flow do not reflect non-recurring 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, operating free cash flow and free cash flow 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, operating free cash flow and free cash flow measures only supplementally. For reconciliation of EBITDA, operating free cash flow and free cash flow to our consolidated net profit for the years ended December 31, 2007, 2008 and 2009 and for the nine months ended September 30, 2009 and 2010, see "*Summary—Summary Financial and Operating Data*".

Total Homes and Businesses Data

Total homes for each of our franchise areas are derived from 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 areas of operation are derived from the 2007 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.

Presentation of Market, Market Share, Industry and Other Data

The market, market share, industry and certain other data contained in this offering memorandum have been taken from industry reports, including reports of the Spanish Telecommunications Market Commission (“CMT”), the Spanish National Statistics Institute (“INE”), the State Secretariat for Telecommunications and the Information Society (“SETSI”) and Eurostat of the European Commission, as well as publicly available reports from telecommunications operators. Industry surveys and publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness.

Certain Operational Definitions

In this offering memorandum, 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 internet, cable television and telephony 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.

“Homes released to marketing” refers to homes to which we can provide broadband internet, cable television and telephony services within an average of four days, which occurs after the customer tap and drop have been installed.

“Net churn” means the percentage obtained by dividing the number of residential cable customers (without the customers moving from one ONO home to another ONO home) 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 residential cable customers during that quarter, multiplied by four. The average number of residential cable customers for any period is calculated by adding the number of residential cable customers at the beginning of the period to the number of residential cable customers at the end of the period and dividing by two.

“Penetration” is the percentage of customers over homes released to marketing in our areas of operation, and with respect to any particular service, penetration is the percentage of RGUs of that service over homes released to marketing in our areas of operation.

“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 internet, cable television and telephony services from us would account for three RGUs.

“ULL” means unbundled local loop, a technology whereby the incumbent operator grants other operators access to the communications circuits between the equipment of the local exchange and the customer’s equipment (known as the local loop).

Other

Certain numerical figures included herein 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 “pp” means percentage points.

RISK FACTORS

An investment in the Notes involves a high degree of risk. You should carefully consider the following risks, together with other information provided to you in this offering memorandum, before deciding whether to invest in the Notes. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. 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. In any of such cases, the value of the Notes could decline, and we may not be able to pay all or part of the interest or principal on the Notes and you may lose all or part of your investment.

This offering memorandum 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 offering memorandum. See "Information Regarding Forward Looking Statements".

Risks Relating to Our Financial Profile

Our current leverage is substantial, which may have an adverse effect on our available cash flow, our ability to obtain additional financing if necessary in the future, our flexibility in reacting to competitive and technological changes and our operations.

We are a highly leveraged company with significant debt service requirements. As of September 30, 2010, on a pro forma basis after giving effect to the October 2010 Refinancing and the issuance of the Notes and the use of the gross proceeds therefrom, our third party indebtedness would have been approximately €3.755 billion (in nominal value, and not including €18 million of accrued interest payable). In addition, as of September 30, 2010, on a pro forma basis, we would have had €46 million in cash and cash equivalents and €242 million of undrawn available funds under our existing financing agreements available for, among other things, future working capital needs, capital investments and servicing our debt.

Our financial leverage could have important consequences, including:

- Inability to satisfy our financial obligations, including those under the Senior Facility (including the Senior Secured Notes Tranche) and the Notes and the Guarantees;
- Increases in the cost of, or inability to obtain, additional debt or equity financing;
- Inability to upgrade and maintain our network;
- Inability to compete with other providers of broadband internet, pay television, telephony and data services that are less leveraged than we are;
- Inability to bid for, or be awarded, licenses or new franchises, make strategic acquisitions, exploit business opportunities and react to significant changes in our business and in general economic conditions; and
- Adverse impact on public perception of us and our brand.

All of our existing debt becomes due prior to the repayment at final maturity of the Notes offered hereby and a substantial portion of our senior debt becomes due and payable in 2013. We do not expect to generate sufficient cash flow to repay most of our debt obligations at maturity and, to the extent we cannot repay such debt, we may not be able to refinance these debt obligations or may be able to refinance only on terms that will increase our cost of borrowing.

All of our existing indebtedness becomes due and payable prior to the repayment of the Notes offered hereby. In addition, on a pro forma basis after giving effect to the October 2010 Refinancing, the issuance of the Notes and the use of the gross proceeds therefrom, approximately €2.3 billion under the existing bank tranches of the Senior Facility matures in 2013.

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 ability to improve our business processes and procedures;
- Our ability to use our carry-forward tax losses;
- The availability of financing in the capital markets at attractive rates; and
- Legal, tax, litigation, regulatory and other factors affecting our business.

We achieved positive free cash flow for the first time in 2009, after experiencing negative free cash flow every year since we commenced operations in 1998. Nonetheless, we do not expect that our business will generate sufficient cash flow to fulfill our debt obligations and we expect to have 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.

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 expect not to be able to meet our debt repayment obligations. In addition, the terms of any refinancing indebtedness may be materially more burdensome to us than the indebtedness it refinances. Such terms, including additional restrictions on our operations and higher interest rates, could have an adverse effect on our results of operations and financial condition and could have a material adverse effect on the value of the Notes.

Furthermore, our inability to meet repayment obligations under the existing agreements could trigger various default provisions, accelerate a substantial portion (if not all) of our debt and materially adversely affect our business, results of operations, financial position and prospects.

A substantial portion of our debt bears variable interest rates.

As of September 30, 2010, on a pro forma basis after giving effect to the October 2010 Refinancing and the issuance of the Notes and the use of gross proceeds therefrom (and excluding the effect of hedges), 69.1% of our debt would have borne interest at floating rates. If market interest rates increase, our variable rate debt will result in higher debt service requirements, which could adversely affect our results of operations and financial condition. Although we currently have in place interest rate hedge agreements in an aggregate amount of €500 million to partially limit our exposure to higher debt service requirements as a result of our floating rate debt, a significant majority of our debt remains unhedged and there is no guarantee that we will be able to enter into additional hedge agreements on satisfactory terms or at all. Furthermore, the hedges we currently have in place expire on January 31, 2011. We are evaluating whether to enter into any new hedging arrangements.

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

Subject to the restrictions in the Senior Facility, the Indenture, the Senior Secured Notes Indenture and other outstanding debt which are subject to a number of significant qualifications and exceptions, we may incur substantial additional debt in the future. Furthermore, our Senior Facility, the Indenture and the Senior Secured Notes Indenture permit us to issue additional series of notes or other indebtedness that will share in the security for the Senior Secured Notes and the Senior Facility, subject to certain conditions, and that will rank senior to the Notes offered hereby. See "*Description of Other Indebtedness—Senior Facility*".

To the extent new debt is incurred, the risks described in "*—Our current leverage is substantial, which may have an adverse effect on our available cash flow, our ability to obtain additional financing if necessary in the future, our flexibility in reacting to competitive and technological changes and our operations*" and *"—Most of our debt becomes due prior to the repayment at final maturity of the Notes offered hereby. We do not expect to generate sufficient cash flow to repay most of our debt obligations at maturity and, to the extent we cannot repay such debt, we may not be able to refinance these debt obligations or may be able to refinance only on terms that will increase our cost of borrowing*" could become more significant.

The Senior Facility and other agreements governing our outstanding and any future indebtedness contain financial covenants that we could fail to meet.

The Senior Facility requires us to satisfy specified financial tests and maintain specified financial ratios regarding maximum senior debt to consolidated LTM EBITDA, maximum total debt to consolidated LTM EBITDA, minimum EBITDA to total interest expense, minimum debt service cover and maximum capital expenditures, each as defined in the credit agreement for the Senior Facility.

Our ability to comply with these ratios and to meet these tests 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 Senior Facility unless we can obtain waivers or consents in respect of any breaches of these obligations under the Senior Facility. We cannot assure you that these waivers or consents will be granted. In the event of any

default under the Senior Facility, the lenders under the Existing Bank Tranches under the Senior Facility could refuse 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 lenders under the relevant debt agreements could also require us to apply all available cash to repay the borrowings. If the debt under the Senior Facility 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 Senior Facility, the Indenture and the Senior Secured Notes Indenture 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 engage in other business activities that may be in our best interest. 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 give no assurance that we would have sufficient funds to repay our debt.

An adverse outcome of the litigation initiated against GCO by one of GCO's shareholders may have a negative impact on us.

As a condition to the amendment of the Senior Facility in May 2010, the senior lenders of Cableuropa required the shareholders of GCO to contribute additional capital to Cableuropa in the form of deeply subordinated participative loans. For these purposes, the Board of Directors of GCO passed certain resolutions on March 8 and 24, 2010 (the "Resolutions") authorizing GCO to enter into a profit participating PIK loan agreement with its shareholders (the "PIK Loan"). The PIK Loan was partially drawn in May 2010 in the amount of €125 million which has been loaned to Cableuropa in the form of deeply subordinated participative indebtedness (the "2010 Downstream Loan"). €50 million of the remaining €75 million was released after we met certain refinancing conditions as a result of the October 2010 Refinancing. Currently, a further €25 million is being held in escrow and will be loaned to Cableuropa on the same terms if certain liquidity conditions are not met. A minority shareholder (Val Telecomunicaciones, S.L., "VAL") of GCO has challenged in court the Resolutions despite the fact that it has subscribed for a substantial portion of its pro rata entitlement of the PIK Loan. The lawsuit seeks to invalidate the Resolutions on the basis that the PIK Loan should have been authorized by a shareholders' meeting of GCO and that various Board members of GCO had a conflict of interest in adopting the Resolutions. Furthermore, VAL claims that the interest rate agreed in the PIK Loan, in addition to other ancillary terms, is unlawful, contrary to the by-laws of GCO and detrimental to the interests of GCO. In its lawsuit VAL is not currently making any claims in relation to the 2010 Downstream Loan nor is it making any claims against Cableuropa.

GCO believes the VAL lawsuit is without merit and the risks of an adverse decision against GCO are low. In the unlikely event that VAL's lawsuit is successful and the Resolutions are declared null and void, GCO and its shareholders would have to renegotiate the terms of the PIK Loan, which we believe would not affect the 2010 Downstream Loan as it is independent from the PIK Loan. However, if GCO fails to renegotiate the terms of the PIK Loan in these circumstances, GCO could become insolvent which could have a negative impact on us, as the insolvency of GCO would constitute an event of default under our Senior Facility that may result in its acceleration. See "*Shareholders and Beneficial Owners—PIK Loan and 2010 Downstream Loan*".

We have not prepared, and we do not intend to prepare, financial information in accordance with U.S. GAAP or IFRS.

We prepare our financial statements in accordance with Spanish GAAP, which varies significantly from U.S. GAAP and from IFRS and results in significant differences in reported operating results and financial condition from those under U.S. GAAP or IFRS. We have not presented a reconciliation of our financial statements to U.S. GAAP or IFRS in this offering memorandum. Moreover, the Indenture does not require us to reconcile future financial statements to U.S. GAAP or IFRS. For further information about the differences between Spanish GAAP and IFRS, see "*Summary of Significant Differences Between Spanish GAAP and IFRS*".

Upon issuance of the Dollar Notes, we will be subject to currency fluctuation risk.

While all of our business is conducted in euro, all payments in respect of the Dollar Notes offered hereby will be denominated in U.S. dollars. This will expose us to the risk of currency fluctuation to the extent that we do not hedge against such risk. If the value of the euro relative to the U.S. dollar declines, payments on the Dollar Notes will effectively become more expensive for us, and our results of operations and financial condition could be materially affected. We are evaluating whether to enter into any hedging arrangements with respect to all or a portion of our payment obligations under the Dollar Notes. Even if we do enter into hedging arrangements to manage the risk of certain currency fluctuations in respect of any Dollar Notes, these arrangements may be costly and may not insulate us completely from such exposure.

Risks Relating to Our Business

We may be affected by a further deterioration of economic conditions in Spain.

Our financial results are substantially dependent upon the overall economic conditions in Spain. After a period of economic growth, Spain entered into a recession in the third quarter of 2008. The effects of the global economic downturn were exacerbated by a real estate crisis and pressures from a relatively high fiscal deficit and foreign indebtedness. Against this backdrop, Spain's GDP declined by 3.1% in 2009 and unemployment reached 20.7% in October 2010, both according to Eurostat. Spain's public debt was downgraded by rating agencies and has been recently downgraded. An extended recession, or public perceptions of declining economic conditions, could substantially decrease the demand for our services and adversely affect our business. During periods with deteriorating economic conditions and high unemployment, consumers have less discretionary spending to purchase services, including telecommunications services. For example, as a result of the economic downturn, in 2008-2009 we experienced decreased demand for our services and our revenues declined from €1,616 million in 2007 to €1,512 million in 2009. During the same period, our residential cable customer numbers declined by 34,000. While the impact of a continued economic slowdown or recession on our business is uncertain, it could result in declines in revenue without a corresponding decrease in expenses and adversely affect our results of operations and financial condition.

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

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

- Developing and deploying new products and services, such as next generation TV;
- Implementing new technologies;
- Maintaining the quality of our network;
- Consolidating our brand in the market;
- Increasing the loyalty of our customer base; and
- Continuously improving our processes and procedures through the implementation of systems and technologies.

Our ability to fund our ongoing operations depends on our ability to generate cash. Our ability to generate cash depends on many factors. For a discussion of these factors see "*—Risks Relating to our Financial Profile*". In addition, our liquidity and capital resource requirements may increase if we expand into additional areas of operation or if we make 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 adversely affected and future growth could be significantly curtailed.

The Spanish fixed and mobile residential broadband internet, television and telephony markets as well as the business telecommunications market are highly competitive and may become more competitive in the future, which could result in lower prices for our products and the loss of current and potential subscribers, which would result in reduced revenues and could materially adversely affect our profitability.

We face significant competition from established and new competitors that provide fixed and mobile residential broadband internet, television and telephony services as well as business telecommunications services in Spain. We also face potential competition from new entrants. 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.

Broadband Internet: Telefónica (operating under the Movistar brand) is our principal competitor with respect to broadband internet services. 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. 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 Orange, Vodafone and Jazztel. We may also face increased competition from internet offerings by the mobile service providers as this service is becoming more popular.

Television: Our cable television services compete against Spain's free digital terrestrial television nationwide, regional and local channels. In addition, in the pay television market, we compete against Sogecable's satellite platform, Digital+. Digital+ has greater market presence than we do, and has exclusive access to certain premium television content. In addition to established competitors such as Sogecable, we experience competition from providers utilizing new technologies such as "Imagenio," Telefónica's commercial pay television service which uses DSL technology that includes VoD services. Other DSL operators, such as Orange, have also launched pay television over DSL technology. In addition, mobile operators offering pay television services and the pay digital terrestrial television may also represent a threat to our business.

Telephony: In the telephony market, our principal competitor is Telefónica (operating under the Movistar brand). We also compete with other operators such as Orange, Vodafone and Jazztel that provide their customers with ULL services through Telefónica's local loop. In addition, we compete with four mobile telephony infrastructure-based operators: Telefónica, Vodafone, Orange and Yoigo that may threaten the competitive position of our networks, particularly if charges for calls on mobile networks continue to decrease. We also face a threat from the Mobile Virtual Network Operators ("MVNO").

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

Business Services: Telefónica and its affiliates are our principal competitors in providing business telecommunications services, followed by Vodafone, BT, COLT and Orange, 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 our business lines, resulting in a decrease in our residential and business ARPUs, a loss of customers and a decrease in our revenues and profitability. In addition, technological developments are increasing cross-competition in certain markets, such as that between mobile and fixed-line telephony. Our success in the marketplace is affected by the actions of our competitors. In particular, our business may be adversely 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 enhance their networks.

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

Our growth prospects depend on demand for broadband Internet, pay television, telephony services and business telecommunications services as well as economic developments in Spain.

The use of telecommunications products in Spain has increased sharply in recent years. We have benefited from this development and our future growth and profitability depend, in part, on demand for these services in Spain in the coming years. If demand for triple-play products in general does not increase as expected, this could have a material adverse effect on our business, financial condition and results of operations.

Moreover, we operate exclusively in the Spanish market and our success is therefore closely tied to general economic developments in Spain and cannot be offset by developments in other markets. Negative developments in, or the general weakness of, the Spanish economy, in particular the increasing levels of unemployment, may have a direct negative impact on the spending patterns of retail consumers and businesses, both in terms of the products they subscribe for and usage levels.

Because we derive a substantial portion of our revenue from residential customers, who may be impacted by these conditions, it may be (i) more difficult to attract and retain new and existing subscribers, (ii) more likely that certain of our customers will downgrade or disconnect their services and (iii) more difficult to maintain ARPUs at existing levels. In addition, we can provide no assurances that a further deterioration of the economy will not lead to a higher number of non-paying customers or generally result in service disconnections.

Therefore, a weak economy and negative economic development may jeopardize our development and may have a material adverse effect on our business, financial condition and results of operations.

Demand in future periods is difficult to predict. If demand is lower than anticipated, we may not realize the expected benefits of providing enhanced services to the Spanish marketplace. Alternatively, if demand is greater than expected, we may not be able to keep up with it and lose market share.

Bundling broadband internet, cable television and telephony services is an important part of our strategy. Moreover, if one of our bundled offerings no longer appeals to our customers, they may discontinue using our bundled or stand-alone services altogether. In addition, the broadband internet, television and telephony markets are very competitive and any of our new, enhanced or planned products or services, including broadband internet with speeds of up to 100 Mbps and next generation TV, may fail to achieve market acceptance and the new or enhanced products or services introduced by our competitors may be more appealing to customers.

Furthermore, in connection with the roll out of broadband internet access enhancements, we rely on third-party subcontractors. Similarly, we rely on suppliers for our cable television services, including for our future next generation TV platform. We have contracted with TiVo to be the exclusive software supplier and with Cisco to be the exclusive set-top box supplier. Customer demand for our product offerings depends on customer satisfaction with the services provided by our subcontractors and suppliers over which we may have limited control.

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.

Our strategy includes the nationwide roll-out of high broadband internet speeds (using Docsis 3.0) and the introduction of next generation TV and we cannot guarantee that these new services, or any other new products that we may develop in the future, will perform as expected when first introduced in the market. Should these or other new products and services fail to perform as expected or should they fail to gain market acceptance, our results of operations may be negatively affected.

Failure to control customer churn may adversely affect our financial performance.

The successful implementation of our business plan depends on our ability to control customer churn. Customer churn is a measure of customers who stop using our services. Customer churn could increase as a result of:

- Dissatisfaction with the quality of our customer service, including billing errors;
- Customers moving to areas where we cannot offer services;
- Interruptions to the delivery of services to customers over our network and poor fault management; and
- The availability of competing services, some of which may, from time to time, be less expensive or technologically superior to those offered by us or offer content or features that we do not offer.

Our inability to further decrease churn or an increase in churn as a result of any of these factors can lead to a reduction in revenue.

Any negative impact on the reputation of and value associated with our brand could adversely affect our business.

The “ONO” brand is an important asset of our business. Maintaining the reputation of and value associated with this brand is central to the success of our business, but our business strategy and its execution may not accomplish this objective. Our reputation may be harmed if we encounter difficulties in the provision of new or existing services, whether due to technical faults, lack of necessary equipment, changes to our traditional product offerings, financial difficulties, disagreements among shareholders or otherwise.

The sectors in which we compete are subject to rapid and significant changes in technology and the results of technological changes are difficult to predict, and could potentially have a material adverse effect on our ability to provide competitive services.

The fixed and mobile broadband internet, television, telephony and business telecommunications markets are characterized by rapid and significant changes in technology. The effect of future technological changes on our business cannot be predicted. It is possible that products or other technological breakthroughs, such as VoIP (over fixed and mobile technologies), mobile instant messaging, wireless fidelity, or WiFi, WiMax (i.e., the extension of local WiFi networks across greater distances) or internet protocol television, may result in our core offerings becoming less competitive and render our existing products and services obsolete. 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 demand in the marketplace for certain new technologies and services. If any new technology or service that we introduce fails to achieve market acceptance, our revenues, margins and cash flows may be adversely affected, and as a result we may not recover any investment made to deploy such new technology.

Our future success depends on our ability to anticipate and adapt in a timely manner to technological changes. 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 will 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.

We depend on others to provide premium programming for our cable television service.

Our ability to compete in the television market is, in part, dependent on our ability to obtain attractive programming at reasonable prices. However, a relatively small number of companies, 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, especially for movies through agreements with major Hollywood studios. 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. Likewise, Mediapro owns all of the football rights of the Spanish football league and our ability to provide attractive football content, which is increasingly important in our industry to retain and attract customers, depends on our capacity to pay for those services as and when they are available to us since we do not currently produce our own content. Moreover, the cost of acquiring football programming has risen significantly in recent years and may continue to rise. For additional information regarding our access to content, see "*Business—Our Products and Services*".

Our business depends on equipment and service suppliers who 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, Ericsson, Cisco, Tivo, Motorola and Huawei, among others, 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, business requirements or otherwise.

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.

In 2010, we entered into an agreement with Huawei, a leading provider of telecommunication equipment, to outsource our voice network. This agreement includes engineering, planning and quality management and we believe that it will allow us to update our voice network and increase the quality of our services while reducing operating expenses. Our business operations and revenues could be adversely affected if Huawei does not fulfill its obligations to us or if we experience difficulties implementing our agreement with Huawei.

We currently depend on Motorola's technology for the operation of our conditional access system which we use 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 such as set-top boxes), to grant licenses for the respective intellectual property rights for the conditional access system, and to provide maintenance, support and security services.

In 2010, we entered into an exclusive agreement with U.S. digital video company TiVo in order to offer next generation TV services in Spain, providing a seamless convergence between internet and traditional television content. As part of this strategy, we have committed to using Cisco set-top boxes. Our television operations going forward are therefore dependent on TiVo's know-how and software and Cisco's hardware. We are in a transition period where we are phasing out the use of Motorola's software and hardware and commencing the introduction of Cisco's hardware and Tivo's software.

Our business operations and revenues could be adversely affected if (i) Motorola no longer maintains our conditional access system during the transition period and if we are not able to replace the existing conditional access system with the system required for next generation TV at a reasonable cost; (ii) the Motorola or Cisco conditional access system is compromised by illegal piracy and access of non-subscribers to the system; and/or (iii) the Motorola or Cisco conditional access system is incompatible with future broadband cable technologies or products we intend to use. Furthermore, our business operations and revenues could be adversely affected if Tivo and Cisco (either directly or through their subcontractors) do not fulfill their obligations to us or if we experience difficulties implementing our agreements with them into our product portfolio. In addition, we received our last shipment of Motorola set top boxes in 2010 and Motorola has ceased production of these boxes. Going forward, we will have to rely on existing stock and refurbished units until the new Cisco set-top boxes are available. If we experience delays in the introduction of the TiVo/Cisco platform, we may be unable to meet client demand for set-top boxes which could adversely affect our operations and revenues.

We rely on Telefónica's network to carry the traffic relating to our mobile telephony and broadband internet services.

We rely on our agreement with Telefónica for voice, data and other telecommunications services we provide to our mobile customers. Our current agreement expires in 2013 and will have to be renegotiated. If the agreement with Telefónica is not renewed or terminated, if Telefónica fails to deploy and maintain its network, or if Telefónica fails to provide the services as required under the terms of our agreement and we are unable to find a replacement network operator on a timely and commercial basis (or at all) we could be prevented from carrying on our mobile business altogether, or on less favorable terms or with less desirable services. Additionally, any migration of all or some of our customer base to a new operator would be in part dependent on Telefónica and could entail technical and commercial risks. Telefónica is also a commercial counterparty in interconnection with us. Any disagreements with Telefónica may affect our commercial relationship with it.

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 or system infrastructure is affected by flood, fire or other natural disaster, computer virus, terrorism, power loss or other unforeseen events, our operations and customer relations could be materially adversely affected. Our disaster recovery, security and service continuity and 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 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 these locations or if those systems develop other problems, there could be a material adverse effect on our business. For example, we depend on our customer billing system, to enable us to conduct our business and interact with our customers. Any significant delays or interruptions in providing services could negatively impact our reputation as an efficient and reliable telecommunications provider and consequently impair our ability to obtain and retain customers.

We depend on the ability to attract and retain key personnel without whom we may not be able to manage our business effectively.

Our operations are currently managed by a number of key executives and employees. The loss of any key employee could significantly impede our financial plans, product development, network completion, marketing and other plans, which could affect our ability to comply 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 largely depends on our continued ability to attract and retain experienced senior executives as well as highly skilled employees. We cannot assure you that we will be successful in hiring and retaining such qualified personnel. If any of our senior executives or other key personnel ceases their employment with us, our business, results of operations, financial position and prospects could be harmed.

We may experience employee or labor relations problems.

Many of our employees are members of unions. Although we believe that our relations with our employees have generally been satisfactory, we have on occasion had disputes with our unions and employees, particularly in connection with headcount reductions. Our inability to negotiate acceptable contracts with our unions upon expiration of an existing contract could result in strikes or work stoppages by the affected workers and increased operating costs as a result of higher wages or benefits paid to union members. If the unionized workers were to engage in a strike or other work stoppage, or other employees were to become unionized, we could experience a significant disruption in operations or higher labor costs, which could have 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 depends on our ability to:

- Enhance the functionality of our network in order to offer increasingly customized services to our customers;
- Upgrade our existing network and systems with new technology such as our new Docsis 3.0, Huawei and next generation TV service platforms;
- 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 (including those relating to Docsis 3.0).

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. Failure to implement such enhancements may result in reduced quality of customer service, leading to an increase in customer churn, which may in turn result in decreases in revenue, otherwise impact on our financial condition and make it more difficult for us to fund our operations and meet our substantial debt obligations.

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 and one of our main competitors, has the ability to set standards and precedents in this market which may adversely affect our business. In addition to its significant market presence and power in the Spanish broadband internet and telephony markets. Telefónica also has a significant market share in the Spanish pay television market. 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 favorable 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 in order to meet its particular objectives. There can be no assurance that their actions will not adversely affect us.

We are subject to increasing operating costs and inflation risks which may adversely affect our earnings.

While we attempt to offset increases in operating costs through a variety of measures focused on increasing revenues, there is no assurance that we will be able to do so. Therefore, operating costs may rise faster than associated revenue, resulting in a material negative impact on our cash flow and net profit.

We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs. In addition, a number of our contracts are indexed to the consumer price index ("CPI"). Increases in the CPI could significantly impact our payment obligations with respect to our suppliers.

Our capital expenditures may not generate a positive return.

The broadband internet, television and telephony markets in which we operate are capital intensive. Significant capital expenditures are required to attract and retain customers to our networks, including expenditures for equipment and

installation costs and the implementation of new technologies such as Docsis 3.0 and next generation TV. No assurance can be given that our future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

We operate in a highly regulated market as a result of which we may be required 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, regional, 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 pay for fixed and mobile line connections;
- Regulations relating to accessing Telefónica´s network for offering ULL and indirect access services and regulations relating to accessing mobile network operators for the provision of mobile line services to end-customers;
- Rules for authorization of renewals and transfers;
- Regulation on universal service obligations including recent developments on the National Universal Service Fund and contributions to it with respect to previous year. (See "*Regulation—Regulatory Environment*");
- Regulations relating to customer privacy and data protection and other consumer rights;
- Regulations on intelligent network services;
- Taxes such as the new RTVE Financing Law and regulations requiring us to invest in content;
- Other requirements covering a variety of operational areas such as land use and environmental protection, technical standards and subscriber service requirements and legal interception obligations;
- Significant market power regulations and other restrictions relating to competition;
- Changes in Telefónica's regulatory rate (in light of which we determine the rate for our wholesale services);
- Regulations on television and other audiovisual communication services;
- Regulations relating to accessing content in the audiovisual market; 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 telecommunications markets in Spain that are not competitive. The CMT has concluded all market reviews and adopted a substantial number of decisions whereby, in compliance with the EU Network Regulation Framework and the General Law on Telecommunications, it has defined relevant markets, identified operators with significant market power and, consequently, imposed certain regulatory obligations both on the traditional fixed telecommunications incumbent (Telefónica) and other operators, such as mobile and cable companies. For more information, see "*Regulation*".

Changes in applicable law, regulations, governing policy, or the interpretation and application of existing laws or regulations, including recent developments on universal service (see "*Regulation*"), 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 and 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.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF ONOMIDCO

The selected historical consolidated financial information presented below has been derived from ONOMidco's Audited Financial Statements (including the 2007 Restated Results) and Unaudited Interim Financial Statements which are included elsewhere in this offering memorandum. See "*Presentation of Financial and other Data*."

The Audited Financial Statements and the Unaudited Interim Financial Statements have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. GAAP and IFRS. You can find a description of the most significant differences between Spanish GAAP and IFRS in "*Summary of Significant Differences Between Spanish GAAP and IFRS*" on page S-1 of this offering memorandum.

For a discussion of how ONOMidco's financial statements differ from Cableuropa's financial statements, see the section entitled "*Presentation of Financial and Other Data*" above.

You should also read the following financial information together with the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations of ONOMidco*", "*Capitalization of ONOMidco*" and ONOMidco's financial statements and notes thereto included elsewhere in this offering memorandum.

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	(unaudited, restated)			**(unaudited)**	
	(euro in millions)				
Income Statement Data:					
Revenues:					
Residential	**1,178**	**1,219**	**1,158**	**870**	**869**
Residential cable	1,143	1,186	1,124	845	841
Residential ULL	35	33	34	25	28
Business, wholesale & other	**396**	**355**	**334**	**255**	**225**
SMEs	76	73	70	52	54
Large accounts & corporations	171	176	166	128	108
Wholesale & other	149	106	98	75	63
Indirect access	**34**	**19**	**10**	**8**	**6**
Revenue from disposed assets (Teuve)	**8**	**9**	**10**	**7**	**3**
Total revenues	**1,616**	**1,602**	**1,512**	**1,140**	**1,103**
Operating expenses:					
Cost of sales	(442)	(381)	(328)	(260)	(233)
Staff costs	(213)	(225)	(171)	(129)	(123)
Other operating expenses	(387)	(365)	(344)	(254)	(259)
Costs capitalized as fixed assets and equipment	71	78	61	45	49
Depreciation, amortization and impairment charges	(343)	(389)	(390)	(293)	(289)
Reversal of provision	13	15	—	—	—
Impairment and gains or losses on disposal of fixed assets	(211)	(16)	(11)	(1)	1
Other-losses/gains-net	(55)	(39)	—	—	—
Total operating expenses	**(1,567)**	**(1,322)**	**(1,183)**	**(892)**	**(854)**
Operating profit	**49**	**280**	**329**	**248**	**249**
Net financial expense	(284)	(304)	(245)	(183)	(170)
Profit/(loss) before tax	(235)	(24)	84	65	79
Income tax	25	3	(31)	(22)	(45)
Profit/(loss) before minority interests	**(210)**	**(21)**	**53**	**43**	**34**
Minority interests	—	(1)	4	(1)	(1)
Net profit/(loss)	**(210)**	**(22)**	**57**	**42**	**33**
Balance Sheet Data:					
Non-current assets	5,879	5,853	5,613	—	5,434
Property, plant and equipment	4,558	4,541	4,340	—	4,227
Deferred tax assets	1,163	1,187	1,151	—	1,092
Current assets	239	518	385	—	262
Inventory, trade and other receivables	219	166	122	—	120
Cash and cash equivalents	4	342	238	—	105
Total assets	6,118	6,370	5,998	—	5,696
Total liabilities	4,949	5,287	4,844	—	4,348
Trade and other payables	681	368	394	—	353
Long-term debt(1)	3,585	4,099	3,545	—	3,615
Total net equity	1,169	1,084	1,154	—	1,347
Shareholders' contributions(2)	955	955	963	—	1,088
Total equity and liabilities	6,118	6,370	5,998	—	5,696

(1) Long-term debt includes the Senior Facility, as well as payment obligations relating to the Existing Subordinated Notes, derivatives and other financial long-term debt. Long-term debt does not include subordinated participative loans from GCO.

(2) Shareholders' contributions represent subordinated participative loans from GCO to Cableuropa and include €125 million contributed in May 2010 in connection with the amendment of the Senior Facility. Prior to the closing of the offering, it is intended that all of the subordinated participative loans will be capitalized into equity. See *"Shareholders and Beneficial Owners—Capitalization Transactions"*.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ONOMIDCO

The discussion below is based on the Audited Financial Statements (including the Restated 2007 Results) and the Unaudited Interim Financial Statements of ONOMidco. For a discussion of how ONOMidco's financial statements differ from Cableuropa's financial statements, see the section entitled "Presentation of Financial and Other Data".

You should also read the following commentary together with the sections entitled "Selected Historical Consolidated Financial Information of ONOMidco," "Risk Factors," "Business" and the Audited Financial Statements and the Unaudited Interim Financial Statements of ONOMidco and the related notes thereto included elsewhere in this offering memorandum.

The following discussion contains forward-looking statements, including those described in the "Information Regarding Forward-Looking Statements" section above, that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of, among others, the factors described below and elsewhere in this offering memorandum, including in "Risk Factors". Except as may be required by applicable law, we will not publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Overview

We are the second largest provider of broadband internet, pay television and fixed telephony services in Spain. Through our proprietary state-of-the-art network, we offer our services to over 7 million homes across Spain, including the nine largest cities. We are the only cable operator in Spain with national coverage. As of September 30, 2010, we provide over 4.3 million services under the ONO brand to approximately 1.9 million residential (cable and ULL) customers and over 69,000 SMEs in Spain. We also offer products and services to large corporations and public sector entities, as well as to the wholesale market. We are the principal competitor to the incumbent telecommunications and pay television operators in Spain. For the twelve months ended September 30, 2010, we generated revenues of €1,475 million and EBITDA of €725 million and an EBITDA margin of 49.2%. In the same period our residential services generated revenues of €1,157 million (accounting for 78.4% of our total revenues), and our business and other services generated revenues of €318 million (accounting for 21.6% of our total revenues).

Factors Affecting Our Business During the Periods under Review

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

	As of and for the year ended December 31,			As of and for the nine months ended September 30,		Percentage change		
	2007	2008	2009	2009	2010	2007/ 2008	2008/ 2009	9m 2009/ 9m 2010
				(Unaudited)				
Residential (cable and ULL):								
Customers (in thousands)	1,927	1,919	1,902	1,888	1,893	(0.4)%	(0.9)%	0.3%
Cable customers (in thousands)	1,859	1,853	1,825	1,819	1,809	(0.3)%	(1.5)%	(0.5)%
Revenue (euro in millions)	1,178[(1)]	1,219	1,158	870	869	3.5%	(5.0)%	(0.1)%
Residential cable:								
Homes released to marketing[(2)] (in thousands)	6,793	6,963	7,004	6,995	7,025	2.5%	0.6%	0.4%
Penetration (percentage)[(3)]	27.4%	26.6%	26.1%	26.0%	25.7%	(0.8)pp	(0.5)pp	(0.3)pp
ARPU (in euro; most recent quarter)[(4)]	52.2	53.2	51.0	50.2	50.8	1.9%	(4.1)%	1.2%
RGUs (in thousands)[(5)]	3,768	3,960	3,967	3,929	3,988	5.1%	0.2%	1.5%
RGUs per customer	2.03x	2.14x	2.17x	2.16x	2.20x	5.4%	1.4%	1.9%
Net churn (percentage)[(6)]	18.2%	18.7%	13.9%	17.3%	15.1%	0.5pp	(4.8)pp	(2.2)pp
Revenue (euro in millions)	1,143[(1)]	1,186	1,124	845	841	3.8%	(5.2)%	(0.5)%
Business[(7)]:								
SME customers (in thousands)	69	69	67	67	69	—	(3.0)%	3.0%
Total business revenue (euro in millions)	396[(1)]	355	334	255	225	(10.4)%	(5.9)%	(11.8)%

(1) Unaudited and restated.

(2) "Homes released to marketing" means a home to which we can provide either broadband internet, cable television or telephony services within four days, which occurs after the customer tap and drop have been installed.

(3) "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.

(4) "ARPU" is the monthly average revenue per user, and is calculated by dividing total revenues generated from our internet, cable television and telephony 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.

(5) "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 internet, cable television and telephony services from us would account for three RGUs.

(6) "Net 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. Excluded from net churn are customers who move locations and terminate their subscription at their old location but resubscribe at their new location.

(7) We do not report numbers of customers in the "large accounts & corporations" and "wholesale & other" business segments because such data is not meaningful.

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

Transformation Process

Towards the end of 2008, faced with weakening international economic conditions, we commenced a transformation process. The transformation focused on adjusting our business model to the changed economic environment and stabilizing its operations following a period of rapid expansion, with the aim of creating a more efficient platform for future growth. This process also coincided with significant changes in our senior management. Largely completed by the end of 2009, the transformation process included a wide range of initiatives focused on maximizing cash flow, implementing cost efficiencies, reshaping our organization and attracting and retaining high-quality customers. As a result of the transformation, we believe we have become a more resilient and efficient company. Our EBITDA increased from €645 million in 2007 to €730 million in 2009, our EBITDA margin increased from 39.9% in 2007 to 48.3% in 2009 and operating free cash flow increased from €91 million in 2007 to €510 million in 2009.

Customer Focus and Effects of Recession

As part of our transformation process, we developed and began to implement a new strategy focused on the acquisition and retention of high-quality customers. Previously our focus had been on customer acquisition, which included the use of short-term promotions and mass market advertising, resulted in relatively high levels of net churn at the end of the promotion period. Our new strategy involves focusing our marketing and customer care efforts on attracting and retaining more creditworthy customers whom we judge less likely to churn and to whom we believe we can successfully market our double- and triple-play bundled packages. We believe that the success of this new strategy is reflected in our improved net churn for our residential cable business, in our stable customer numbers and in our improved RGU numbers during 2009 and the first nine months of 2010.

However, the economic recession in Spain that resulted from the financial and economic crisis in 2008 and 2009 has significantly impacted our financial and operational performance, partially offsetting the effect of our revised customer focus strategy in the periods under review. Although certain operational metrics have improved during the periods under review, largely as a result of our new strategy and despite the adverse economic climate, our revenues have declined.

The combined effect of our new customer strategy and the impact of the adverse economic climate in Spain on our residential cable customer numbers, net churn, ARPU and RGUs is described below:

Residential cable customers. Our residential cable customer base decreased by 0.3% and 1.5% in 2008 and 2009, respectively, and 0.5% during the first nine months of 2010 compared to the same period in 2009, reaching 1.8 million customers as of September 30, 2010. The decline in our residential cable customer numbers during these periods was primarily driven by the shift in our focus to more creditworthy customers through the introduction of a credit scoring system, additional activation and installation fees and reductions in promotions as well as by the challenging economic environment in Spain.

Residential cable net churn. Our net churn (based on the last quarter of each period) for our residential cable business increased from 18.2% in 2007 to 18.7% in 2008 but declined to 13.9% in 2009. Net churn declined from 17.3% for the quarter ended September 30, 2009 to 15.1% for the quarter ended September 30, 2010. Although residential cable net churn increased in 2008 as our new strategy was implemented, the subsequent decrease has resulted primarily from our success in focusing on more creditworthy customers as discussed above and in discontinuing the marketing of service bundles with historically high net churn.

Residential cable ARPU. ARPU is a measure we use to evaluate how effectively we are obtaining revenues from each of our customers. During the period from 2007 until the second quarter of 2008, our residential cable ARPU consistently increased from quarter to quarter primarily as a result of our success in marketing double- and triple-play bundles of services to our residential cable customers. During the period from the second quarter of 2008 until the third quarter of 2009, our residential cable ARPU declined, primarily as a result of the general economic environment in Spain, which in turn has led to reduced fixed-line to mobile and fixed-line to international traffic, reduced demand for pay-per-view and VoD services and the cancellation by some customers of television services. Since the third quarter of 2009, ARPU has begun to increase again, primarily because of higher monthly fees derived from the increase of double- and triple-play bundled customers in our residential cable customer base. ARPU for residential cable services increased to €50.8 in the third quarter of 2010, as compared to €50.2 in the third quarter of 2009. Approximately 80% to 85% of our residential cable ARPU is generated by fixed monthly fees charged to customers, resulting in a relatively stable and recurring revenue base. The remaining 15% to 20% reflects more variable charges for VoD, TV and telephony services.

Residential cable RGUs. RGUs per customer is another measure of how effectively we are realizing potential revenues from each customer. We provide subscribers with a variety of bundled service offerings, at a price that is generally lower than the aggregate price of these services purchased on an individual basis from us or our competitors in order to increase revenues from each of our customers. Our residential cable bundled services comprise a combination of our cable television packages of up to 127 channels, VoD, broadband internet services up to 100 Mbps and telephony services, offering our customers the convenience of having a single provider for their wireline communication, entertainment and information needs. We have gradually increased our residential cable RGUs, reaching 3,988,000 as of September 30, 2010, compared to 3,768,000 as of December 31, 2007, due to the fact that an increasing percentage of our total residential cable customers received triple-play services (37.8% as of September 30, 2010, compared to 34.5% as of September 30, 2009). Most of our remaining customers receive at least double-play services because we no longer promote any of our services on a stand-alone basis. The gradual increase in residential cable RGUs and the relatively small decline in the number of our residential cable customers have resulted in an increase in the ratio of RGUs per residential cable customer from 2.03x as of December 31, 2007 to 2.14x as of December 31, 2008, 2.17x as of December 31, 2009 and 2.20x as of September 30, 2010.

Reduction in Capital Expenditure

In light of the financial crisis which made funding the expansion of our network difficult to finance, we elected in the second half of 2008 to cease network expansion activity. As a result, our capital expenditure has been significantly reduced and we are now focused on upgrading our existing network, customer installations and the quality of our products and services. Examples of our investment in improving the quality of our products and services include our introduction of broadband speeds of up to 100 Mbps and next generation TV services. In the first nine months of 2010, our capital expenditure amounted to €170 million. Our capital expenditure amounted to €554 million, €374 million and €220 million in 2007, 2008 and 2009, respectively. See "*—Liquidity and Capital Resources—Capital Expenditures*".

Reduction in Operational Expenditure

As part of our transformation strategy we have also taken steps to reduce our operational expenditure, including undertaking an internal reorganization, reducing our headcount, renegotiating certain of our contracts to improve their terms, using more cost efficient sales channels, such as the internet (and thereby reducing our reliance on direct sales efforts) and reducing our advertising and marketing expenses, in part by adopting more carefully targeted marketing campaigns. For the nine months ended September 30, 2010, 22.2% of our sales were made through the internet, compared to 4.6% for the same period in 2008. As part of our business reorganization, we have consolidated our regional operations, reducing the number of our regional areas of operation from ten to four.

We also began to reduce our headcount in 2008 and reduced our total headcount from an average of 4,594 in 2008 to 3,549 in 2009 and to 3,314 in the first nine months of 2010. We continue to monitor overall headcount to ensure adequate staffing levels.

Regulatory Costs

The Spanish Parliament has recently adopted tax legislation requiring telecommunications operators, including Cableuropa, to help fund Spain's publicly-owned broadcasting company, RTVE. Law 8/2009, of August 28, for the financing of the Spanish Radio and Television Corporation, imposed a 1.5% tax derived from our television and other audiovisual communications revenues from September 1, 2009 and a 0.9% tax on our telecommunications revenue from January 1, 2010 (the "RTVE Financing Law"). These taxes are assessed on a yearly basis and resulted in additional operating expenses of €7.3 million in the first nine months of 2010. See "*—Business—Other Legal and Regulatory Matters*".

Furthermore, since May 2010, we have become legally required, in certain circumstances, to invest 5% of a significant portion of the revenues we derive from the provision of our television and audiovisual services into the production of new Spanish or European television and other audiovisual content. We expect this obligation will result in a cash expenditure of €5 million to €8 million per year which will be accounted for as a capital expenditure. We expect that we will earn revenues from such investments in future years.

Current Trading

We do not yet have finalized financial and operational data in respect of the fourth quarter and full year 2010, and accordingly such data are subject to change. However, based on currently available information, we estimate that our profitability continued to improve in the fourth quarter, evidenced by stable EBITDA, strong margins and continued cash flow generation, including a slight improvement in customer numbers, RGUs and revenues, as compared to the third quarter of 2010. Churn is expected to be lower than the third quarter of 2010 but higher than the fourth quarter of 2009. We estimate that ARPU and RGUs per customer for the fourth quarter of 2010 are likely to be higher than those for the third quarter of 2010. Furthermore, triple-play uptake continued to show positive momentum. Finally, our new offering based on ultra high-speed broadband is experiencing an encouraging success both with respect to our existing customer base and the acquisition of new customers and showcases our continued focus on high-quality customers.

Results of Operations for the Nine months Ended September 30, 2009 and 2010

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

	For the nine months ended September 30,		
	2009	**2010**	**Percentage change**
	(euro in millions) (unaudited)		
Revenues	1,140	1,103	(3.2)%
Operating expenses	(892)	(854)	(4.3)%
Operating profit	**248**	**249**	**0.4%**
Net financial expense	(183)	(170)	(7.1)%
Profit before income tax and minority interests	**65**	**79**	**21.5%**
Income tax expense	(22)	(45)	104.5%
Minority interests	(1)	(1)	—
Net profit for the period	**42**	**33**	**(21.4)%**

Revenues

Our revenues are derived primarily from residential services, which involve providing our customers with a combination of internet, pay television and telephony services, either through our cable network or through ULL, business services, which involve providing SMEs, large corporations and public entities with voice and data services, as well as other value-added services, and providing other telecommunications operators with wholesale access to our excess capacity and certain other products and services, such as carrier services, voice traffic services, leased and dedicated lines and internet-service provider solutions.

The following table sets forth our revenues derived from our different activities, their proportion of total revenues and the percentage change from period to period for each of the periods indicated.

	For the nine months ended September 30,				
	2009	**% of revenues**	**2010**	**% of revenues**	**Percentage change**
	(euro in millions, except percentages) (unaudited)				
Residential	**870**	**76.3%**	**869**	**78.8%**	**(0.1)%**
Residential cable	845	74.1%	841	76.3%	(0.5)%
Residential ULL	25	2.2%	28	2.5%	12.0%
Business	**255**	**22.4%**	**225**	**20.4%**	**(11.8)%**
SMEs	52	4.6%	54	4.9%	3.8%
Large accounts & corporations	128	11.2%	108	9.8%	(15.6)%
Wholesale & other	75	6.6%	63	5.7%	(16.0)%
Other	**15**	**1.3%**	**9**	**0.8%**	**(40.0)%**
Indirect access[(1)]	8	0.7%	6	0.5%	(25.0)%
Revenue from disposed assets (Teuve)[(2)]	7	0.6%	3	0.3%	(57.1)%
Total revenues	**1,140**		**1,103**		**(3.2)%**

(1) Indirect access is a service originally provided by Auna.

(2) We sold Teuve in April 2010.

Overall revenues for the nine months ended September 30, 2010 decreased by €37 million, or 3.2%, to €1,103 million from €1,140 million for the nine months ended September 30, 2009, reflecting a decrease primarily in business revenues as well as, to a lesser extent, a decrease in residential and other revenues.

Residential Services

Residential revenues are mainly comprised of monthly fees, initial connection charges, usage charges from our residential telephony services, sales of cable modems from our internet services and set-top box rental charges and variable fees for pay-per-view events from our cable television services, as well as from our mobile services. Most of our customers receive our products and services through our cable network; however an increasing number receive bundled telephony and internet services through ULL.

Residential revenues, which represented 78.8% of our revenues in the nine months ended September 30, 2010, decreased by €1 million, or 0.1%, to €869 million for the nine months ended September 30, 2010 from €870 million for the nine months ended September 30, 2009. The main reasons for the decline were the lower number of residential cable customers, as well as lower variable spending in terms of lower volume of minutes of fixed-line to mobile and fixed-line to international calls and the decrease in revenues from pay-per-view services.

Residential Cable

Cable services provide us with revenues from monthly fees and initial activation and connection charges from residential bundled and individual services; usage charges from residential telephony services; customer premise equipment rental charges; incoming interconnection; variable fees for pay-per-view and VoD services from cable television services and other minor items. We currently offer our residential customers double- and triple-play packages of services which consist of telephony and either internet or television, or both services. The following table sets forth information on residential cable services, and the percentage change from period to period:

	As of and for the nine months ended September 30,		
	2009	**2010**	**Percentage change**
	(unaudited)		
Homes released to marketing (in thousands)	6,995	7,025	0.4%
Customers (in thousands)	1,819	1,809	(0.5)%
Penetration (percentage)	26.0%	25.7%	(0.3)pp
Net churn (percentage; most recent quarter)	17.3%	15.1%	(2.2)pp
ARPU (euro; most recent quarter)	50.2	50.8	1.2%
Total RGUs (in thousands)	3,929	3,988	1.5%
Internet	1,303	1,361	4.5%
Television	977	948	(3.0)%
Telephony	1,648	1,679	1.9%
RGUs per customer	2.16x	2.20x	1.9%
Revenue (euro in millions, except percentage)	845	841	(0.5)%

Residential cable revenues, which represented 76.3% of our revenues in the nine months ended September 30, 2010, decreased by €4 million, or 0.5%, to €841 million in the nine months ended September 30, 2010 from €845 million in the nine months ended September 30, 2009. This decrease primarily reflected the relatively weak macroeconomic climate in Spain, which had a negative impact on our customer numbers and caused a reduction in the volume of fixed-line to mobile and fixed-line to international calls in favor of fixed-line to fixed-line calls which are included in the customers' flat monthly fee and a reduction in variable fees for pay-per-view and pay VoD television services.

We also continued with our selective customer acquisition strategy through credit scoring and other measures that we implemented to acquire fewer early churning customers and to improve our profitability. As a result of these and other measures discussed above, we reduced our net churn levels to 15.1% in the third quarter of 2010 from 17.3% in the third quarter of 2009, despite the challenging macroeconomic environment.

Although customer numbers declined in the first nine months of 2010 compared to the same period in the prior year, RGUs increased to 4.0 million as of September 30, 2010 from 3.9 million as of September 30, 2009, reflecting our decision to discontinue the promotion of stand-alone services and to promote double- and triple-play bundles. In the third quarter of 2010, 46.6% of our customers purchased triple-play bundles from us, compared to 38.2% in the third quarter of 2009. ARPU increased to €50.8 in the third quarter of 2010 as compared to €50.2 in the third quarter of 2009. The increase in ARPU primarily reflected an increase in total RGUs of 1.5%. Total residential cable customers decreased by 0.5%, or 10,000, to 1,809,000 as of September 30, 2010 from 1,819,000 as of September 30, 2009. Penetration decreased by 0.3 percentage point to 25.7% as of September 30, 2010 from 26.0% as of September 30, 2009.

Broadband Internet. Broadband internet customers increased by 58,000, or 4.5%, to 1,361,000 as of September 30, 2010 from 1,303,000 as of September 30, 2009. Broadband internet customers as a proportion of total residential cable customers increased by 3.7 percentage points to 75.3% as of September 30, 2010 from 71.6% as of September 30, 2009. Our residential broadband internet penetration increased by 0.8 percentage point to 19.4% at the end of September 2010 compared to 18.6% at the end of September 2009.

In April 2010, as part of our customer strategy we launched an offer to double the download speed of our 3 Mbps and 6 Mbps customers for an additional price of €2 per month. The offer has been widely adopted by our customers and is an example of how we have improved our ARPU by delivering more enhanced services. In addition, we continue to see a gradual increase in the number of customers taking higher-speed packages.

Television. Cable television customers decreased by 29,000, or 3.0%, to 948,000 as of September 30, 2010 from 977,000 as of September 30, 2009. Cable television customers as a proportion of total residential cable customers decreased by 1.3 percentage point to 52.4% as of September 30, 2010 from 53.7% at the same date in 2009. The penetration of cable television services decreased by 0.5 percentage points to 13.5% at the end of September 2010 compared to 14.0% at the end of September 2009. The difficult macroeconomic environment forcing some customers to drop television services to conserve disposable income, our decision to discontinue the promotion of this product on a stand-alone basis (in order to encourage the purchase of our bundled packages) and the increased focus on acquiring customers with telephony and broadband bundles, which enjoy lower churn rates, are all factors that have negatively impacted our television customer base.

Telephony. Telephony customers increased by 31,000, or 1.9%, to 1,679,000 as of September 30, 2010 from 1,648,000 as of September 30, 2009, due to the effort in acquiring customers taking bundles with telephony and the lower net churn experienced in customers taking this service. Telephony customers as a proportion of total residential cable customers increased by 2.2 percentage points to 92.8% as of September 30, 2010 from 90.6% as of September 30, 2009. Our telephony penetration increased by 0.3 percentage point to 23.9% at the end of September 2010 compared to 23.6% at the end of September 2009.

Residential ULL

Residential ULL services are comprised of services offered through full unbundling of the local loop. These services provide us with revenues from monthly fees from telephony and broadband internet services and usage charges from telephony services.

The following table sets forth customers, RGU and revenue from our residential ULL services and percentage change over the period.

	As of and for the nine months ended September 30,		
	2009	2010	Percentage change
	(unaudited)		
Customers (in thousands, except percentage)	70	84	20.0%
RGUs (in thousands, except percentage)	120	154	28.3%
Revenue (euro in millions, except percentage)	25	28	12.0%

Residential ULL revenues increased by €3 million, or 12.0%, to €28 million in the first nine months of 2010 from €25 million in the first nine months of 2009, reflecting increases in customers and RGUs, offset in part by declines in variable usage fees due to the challenging macroeconomic environment. ULL customers increased by 14,000, or 20.0%, to 84,000 as of September 30, 2010 from 70,000 as of September 30, 2009. RGUs increased by 34,000, or 28.3%, to 154,000 as of September 30, 2010 from 120,000 as of September 30, 2009. As of September 30, 2010, 98% of customers in the ULL segment benefited from a bundled service as compared to 94% as of September 30, 2009. These increases primarily resulted from a greater focus by management on this business segment as a complement to our residential cable business.

Business Services

Business services revenues comprise revenues from SMEs, large accounts, corporations, wholesale and other revenue.

Business services revenues, which represented 20.4% of our revenues in the nine months ended September 30, 2010, decreased by €30 million, or 11.8%, to €225 million for the nine months ended September 30, 2010 from €255 million for the nine months ended September 30, 2009, primarily as a result of a decline in our revenue from large accounts and corporations, which was only partially offset by an increase in SME revenue.

SMEs

Revenues from SMEs services are derived from fees paid by small- and medium-sized enterprises, for voice and data services, offered individually or as a bundle and incoming interconnection revenues of this segment. We offer SME services over cable and ULL. The following table sets forth customers, RGUs and revenues from SMEs services and the percentage change over the period:

	As of and for the nine months ended September 30,		
	2009	**2010**	**Percentage change**
	(unaudited)		
Customers (in thousands, except percentage)	67	69	3.0%
RGUs (in thousands, except percentage)	111	127	14.4%
Revenue (euro in millions, except percentage)	52	54	3.8%

SME revenues, which represented 4.9% of our revenues in the nine months ended September 30, 2010, increased by €2 million, or 3.8%, to €54 million in the nine months ended September 30, 2010 from €52 million in the nine months ended September 30, 2009. SMEs customers increased marginally despite the adverse macroeconomic environment, primarily as result of greater focus by management on this business segment.

Large Accounts & Corporations

Revenues from large accounts and corporations are derived from customized solutions designed to satisfy the communications needs (voice, internet, data solutions and equipment) of large corporate groups, institutions and central and autonomous government agencies and other public sector entities, through an integrated range of tailored services.

Revenues from large accounts and corporations decreased by €20 million, or 15.6%, to €108 million in the nine months ended September 30, 2010 from €128 million in the nine months ended September 30, 2009. A lower level of variable revenues associated with reduced usage, and contract renegotiations that often involved material reductions in agreed volumes and prices negatively impacted this segment during the period.

Wholesale & Other

Revenues from wholesale and other 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.

Revenues from wholesale and other decreased by €12 million, or 16.0%, to €63 million in the first nine months of 2010 from €75 million in the first nine months of 2009. This reduction was mainly due to a reduction in demand from other telecommunications companies for our excess circuit capacity and from resellers for purchases of bulk time. We are not actively focused on portions of this business segment because of its generally lower profitability.

Indirect Access

Indirect access comprises telephony and data services we provide using Telefónica's network and equipment. Indirect access is a service provided to customers of Auna Telecomunicaciones, S.A.U. ("Auna"), a company we acquired on November 4, 2005. Our indirect access customers have been steadily declining in all periods under review, which is a trend we expect to continue in light of our focus on other business activities. Indirect access revenue decreased by €2 million, or 25.0%, to €6 million in the first nine months of 2010 from €8 million in the first nine months of 2009.

Operating Expenses

Our operating expenses are comprised of cost of service; staff cost; other operating expense; costs capitalized as property and equipment; depreciation and amortization; and impairments. The following table sets forth our operating expenses and the percentage change from period to period for each of the periods indicated:

	For the nine months ended September 30,		
	2009	**2010**	**Percentage change**
	(euro in millions) (unaudited)		
Cost of sales	260	233	(10.4)%
Staff costs	129	123	(4.7)%
Other operating expenses	254	259	2.0%
Less capitalized costs	(45)	(49)	8.9%
Depreciation & amortization	293	289	(1.4)%
Impairments and gains or losses on assets disposals	1	(1)	—
Total operating expenses	**892**	**854**	**(4.3)%**

Our operating expenses decreased by 4.3% during the nine months ended September 30, 2010 to €854 million as compared with €892 million during the nine months ended September 30, 2009. The decrease of our operating expenses mainly reflects (i) the headcount reduction plan implemented in the first quarter of 2009, (ii) the new sales strategy with a focus on cost-efficient sales channels, and (iii) other organizational initiatives.

The positive impact from these savings has been partially offset by the introduction of the RTVE Financing Law discussed above. See also "*Business—Other Legal and Regulatory Matters*".

Cost of Sales. Cost of sales principally consists of interconnection and backbone network costs for telecommunications services, internet connectivity costs, the cost of the cable modems we sell, fiber, circuit and duct renting expenses and programming fees for cable television programming services. As a percentage of total revenues, cost of sales was 21.1% in the nine months ended September 30, 2010 as compared with 22.8% in the nine months ended September 30, 2009. 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. Cost of sales decreased by €27 million, or 10.4%, to €233 million in the first nine months of 2010 from €260 million in the first nine months of 2009. This reduction was driven primarily by (i) lower interconnection costs due to less fixed-to-mobile traffic and lower tariffs, (ii) the renegotiation of cable television programming agreements and (iii) our focus on products and services that we believe are more profitable because, in part, they have lower cost of sales.

Staff Costs. Staff costs consist principally of expenses related to wages and salaries for our employees, employer's social security contributions, other employee expenses and severance payments. Staff costs decreased by €6 million, or 4.7%, to €123 million in the first nine months of 2010 from €129 million in the first nine months of 2009. The decrease in staff costs was driven primarily by the reduction in our average headcount as a result of the optimization of our organizational structure and processes. In the first nine months of 2009 the average number of our employees was 3,544 compared with 3,314 in the first nine months of 2010.

Other Operating Expenses. Other operating expenses consist principally of leases, local taxes, professional services, marketing and selling expenses, network operation and maintenance, information systems, administrative overheads, billing costs and impairments of trade receivables. Other operating expenses increased by €5 million, or 2.0%, to €259 million in the first nine months of 2010 from €254 million in the first nine months of 2009. The increase in other operating expenses was primarily the result of the RTVE Financing Law, which resulted in expenses of €7.3 million in the first nine months of 2010.

Capitalized Costs. We capitalize direct labor costs associated with the development and construction of our network and installations carried out at our customer premises. Capitalized costs increased by €4 million, or 8.9%, to €49 million in the first nine months of 2010 from €45 million in the first nine months of 2009. This increase was primarily the result of increased installation activity related to upgrading equipment for existing customers.

Depreciation & Amortization. Depreciation and amortization expense 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. Depreciation and amortization decreased by €4 million, or 1.4%, to €289 million in the first nine months of 2010 from €293 million in the first nine months of 2009.

Operating Profit

We calculate operating profit as revenues minus operating expenses. Operating profit in the nine months ended September 30, 2010 increased by €1 million, or 0.4%, to €249 million from €248 million in the nine months ended September 30, 2009. The decrease in revenues during the first nine months of 2010, was offset by the decrease in operating expenses. Our operating profit margin was 22.6% in the first nine months of 2010 and 21.8% in the first nine months of 2009. Operating profit for the first nine months of 2010 reflects the inclusion for the first time of expenses related to the RTVE Financing Law.

Net Financial Expense

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

	For the nine months ended September 30,		
	2009	2010	Percentage change
	(euro in millions) (unaudited)		
Financial income	3	2	(33.3)%
Interest expense	(175)	(159)	(9.1)%
Other financial charges	(15)	(13)	(13.3)%
Impairment and results from financial instruments disposals	4	—	—
Net financial expense	**(183)**	**(170)**	**(7.1)%**

Our net financial expense is mainly comprised of interest expense from our financing and hedge agreements, offset in part by interest income from cash balances. Net financial expense decreased by €13 million, or 7.1%, to €170 million in the nine months ended September 30, 2010 from €183 million incurred in the nine months ended September 30, 2009. The reduction in interest expense was primarily due to the decline in Euribor rates over the course of 2009 and into 2010 as well as the positive impact of the expiration of €2,065 million of interest rates swaps in July 2010, offset in part by amortized costs incurred to amend the Senior Facility in May 2010 (which was treated as a refinancing for accounting purposes), which will also have an impact going-forward as the costs are further amortized.

Going forward, interest expense is expected to increase as a result of the higher interest rates associated with the October 2010 Refinancing and the issuance of the Notes offered hereby.

Income Tax Expense

Our income tax expense increased by €23 million, or 104.5%, to €45 million in the nine months ended September 30, 2010 from €22 million for the nine months ended September 30, 2009, reflecting the higher profit before tax for the period and the maturity of certain tax credits. We have tax credits of €1,092 million as of September 30, 2010. Consequently, we were not required to pay cash taxes for the period although we recognize income tax expense for accounting purposes. 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. Assuming there is no change in law, we do not anticipate paying cash income taxes for the next several years, as our outstanding tax loss carry forwards can be used to offset future taxable income.

Results of Operations for the Years Ended December 31, 2009, 2008, and 2007

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

	Year ended December 31,			Percentage change	
	2007(1)	2008	2009	07/08	08/09
	(euro in millions)				
Revenues	1,616	1,602	1,512	(0.9)%	(5.6)%
Operating expenses	(1,567)	(1,322)	(1,183)	(15.6)%	(10.5)%
Operating profit/(loss)	**49**	**280**	**329**	**471.4%**	**17.5%**
Net financial expense	(284)	(304)	(245)	7.0%	(19.4)%
Profit/(loss) before income tax and minority interests	**(235)**	**(24)**	**84**	**(89.8)%**	**—**
Income tax credit/(expense)	25	3	(31)	(88.0)%	—
Minority interests	—	1	4	—	300%
Net profit/(loss) for the year	**(210)**	**(22)**	**57**	**(89.5)%**	**—**

(1) Unaudited and restated.

Revenues

The following table sets forth details of our revenues and the percentage change from period to period for each of the periods indicated:

	Year ended December 31,			Percentage change	
	2007[(1)]	**2008**	**2009**	**07/08**	**08/09**
	(euro in millions)				
Residential	**1,178**	**1,219**	**1,158**	**3.5%**	**(5.0)%**
Residential cable	1,143	1,186	1,124	3.8%	(5.2)%
Residential ULL	35	33	34	(5.7)%	3.0%
Business	**396**	**355**	**334**	**(10.4)%**	**(5.9)%**
SMEs	76	73	70	(3.9)%	(4.1)%
Large accounts & corporations	171	176	166	2.9%	(5.7)%
Wholesale & other	149	106	98	(28.9)%	(7.5)%
Other	**42**	**28**	**20**	**(33.3)%**	**(28.6)%**
Indirect access	34	19	10	(44.1)%	(47.4)%
Revenue from disposed assets (Teuve)	8	9	10	12.5%	11.1%
Total revenues	**1,616**	**1,602**	**1,512**	**(0.9)%**	**(5.6)%**

(1) Unaudited and restated.

Overall revenues in 2009 decreased by €90 million, or 5.6%, to €1,512 million from €1,602 million in 2008, reflecting a decrease in residential, business and other revenues.

Overall revenues in 2008 decreased by €14 million, or 0.9%, to €1,602 million from €1,616 million in 2007, reflecting a €55 million decrease in our business and other revenues, which was only partially offset by a €41 million increase in our residential revenues.

Residential Services

In 2009, residential revenues, which represented 76.6% of our revenues in 2009, decreased by €61 million, or 5.0%, to €1,158 million from €1,219 million in 2008. The decrease in residential revenues was primarily attributable to a decline in residential cable revenue. In 2008, residential revenues increased by €41 million, or 3.5%, to €1,219 million from €1,178 million in 2007. The main reason for the increase was an increase in our residential cable revenue, offset in part by a decline in our residential ULL revenue.

Residential Cable

The following table sets forth information on residential cable services, and the percentage change from period to period:

	Year ended December 31,			Percentage change	
	2007	**2008**	**2009**	**07/08**	**08/09**
Homes released to marketing (in thousands)	6,793	6,963	7,004	2.5%	0.6%
Customers (in thousands)	1,859	1,853	1,825	(0.3)%	(1.5)%
Penetration (percentage)	27.4%	26.6%	26.1%	(0.7pp)	(0.6pp)
Net churn (percentage; most recent quarter)	18.2%	18.7%	13.9%	0.5pp	(4.8pp)
ARPU (euro; most recent quarter)	52.2	53.2	51.0	1.9%	(4.1)%
Total RGUs (in thousands)	3,768	3,960	3,967	5.1%	0.2%
Internet	1,203	1,283	1,326	6.7%	3.4%
Television	960	1,039	975	8.2%	(6.2)%
Telephony	1,605	1,638	1,666	2.0%	1.7%
RGUs per customer	2.03x	2.14x	2.17x	5.4%	1.4%
Revenue (euro in millions, except percentages)	1,143[(1)]	1,186	1,124	3.8%	(5.2)%

(1) Unaudited and restated.

In 2009, residential cable revenue, which represented 74.3% of our revenues, decreased by €62 million, or 5.2%, to €1,124 million from €1,186 million in 2008. The principal factor behind the decrease in our residential cable revenues was the shift in consumption patterns as customers substituted fixed-to-mobile calls with fixed-to-fixed calls which are included in the customers monthly fee, lower demand for our pay-per-view services and for our paid VoD services and a decrease in the number of our customers. In 2008, residential cable revenue, which represented 74.0% of our revenues, increased by €43 million, or by 3.8%, to €1,186 million in 2008 from €1,143 million in 2007, primarily as a result of an increase in RGUs and ARPU, reflecting an increase in our customer numbers in the first half of 2008, prior to the implementation of our transformation strategy.

Residential cable RGUs and RGU per customer increased in both periods, reflecting increased double- and triple-play customers. As of December 31, 2009, 35.6% of our customers subscribed to triple-play bundles from us, compared to 34.1% at the end of 2008 and 31.3% at the end of 2007. ARPU increased to €53.2 in the fourth quarter of 2008 as compared to €52.2 in the fourth quarter of 2007, but then decreased to €51.0 in the fourth quarter of 2009. The increase in ARPU in 2008 primarily reflected an increase in total RGUs of 5.1%. The decrease in ARPU in 2009 primarily reflected lower variable fee revenues and RGU growth of only 0.2%. Penetration decreased by 0.5 percentage point to 26.1% as of December 31, 2009, from 26.6% as at December 31, 2008 and 27.4% as at December 31, 2007. Total residential cable customers decreased by 0.3% in 2008 and 1.5% to 1,825,000 in 2009 from 1,853,000 in 2008.

Broadband Internet: In 2009, broadband internet customers increased by 43,000, or 3.4%, to 1,326,000 as of December 31, 2009 from 1,283,000 as of December 31, 2008. Broadband internet customers as a proportion of total residential cable customers increased by 3.4 percentage points to 72.6% in 2009 from 69.2% in 2008. Our residential broadband internet penetration increased to 18.9% at the end of 2009 from 18.4% at the end of 2008. The increase was a result of our efforts to acquire customers with this service combined with telephony or on a triple-play basis. Towards the second half of 2009, there was a positive trend in new customers taking high speed packages, including the 50Mbps package available initially in Madrid.

In 2008, broadband internet customers increased by 80,000, or 6.7%, to 1,283,000 at the end of 2008 from 1,203,000 at the end of 2007. Broadband internet customers as a proportion of total residential cable customers increased by 4.5 percentage points to 69.2% at the end of 2008 from 64.7% at the end of 2007. Our residential broadband internet penetration increased to 18.4% at the end of 2008 from 17.7% at the end of 2007. The increase reflected our efforts to acquire customers with this service combined with telephony or on a triple-play basis.

Television: In 2009, cable television customers decreased by 64,000, or 6.2%, to 975,000 as of December 31, 2009 from 1,039,000 as of December 31, 2008. Cable television customers as a proportion of total residential cable customers decreased by 2.7 percentage points in 2009 to 53.4% as of December 31, 2009 from 56.1% as of December 31, 2008. The penetration of cable television services decreased by 1.0 percentage point to 13.9% at the end of 2009 from 14.9% at the end of 2008. During 2009, the decrease in cable television customers was mainly due to the fact that we ceased offering this product on a stand-alone basis and focused on acquiring customers with telephony and broadband bundles, which enjoy lower net churn rates, and a discontinuation of promotions relating to "TV Esencial", a low-cost television package.

In 2008, television customers increased by 79,000, or 8.2%, to 1,039,000 as of December 31, 2008 from 960,000 as of December 31, 2007. Cable television customers as a proportion of total residential cable customers increased by 4.5 percentage points to 56.1% as of December 31, 2008 from 51.6% as of December 31, 2007. The penetration of cable television services increased by 0.8 percentage points to 14.9% as of December 31, 2008 from 14.1% as of December 31, 2007. During 2008, the increase in cable television customers was primarily due to promotions relating to the launch of "TV Esencial" in late 2007.

Telephony: In 2009, the number of telephony customers increased by 28,000, or 1.7% to 1,666,000 as of December 31, 2009 from 1,638,000 as of December 31, 2008. Telephony customers as a proportion of total residential cable customers increased by 2.9 percentage points to 91.3% at the end of 2009 from 88.4% at the end of December 31, 2008. This increase was primarily due to our efforts to acquire customers taking bundles with telephony and the lower net churn experienced in customers taking this service.

In 2008, the number of telephony customers increased by 33,000, or 2.1% to 1,638,000 as of December 31, 2008 from 1,605,000 as of December 31, 2007. Telephony customers as a proportion of total residential cable customers increased by 2.1 percentage points to 88.4% at the end of 2008 from 86.3% at the end of 2007.

Residential ULL Services

	As of and for December 31,			Percentage change	
	2007	2008	2009	07/08	08/09
Customers (in thousands, except percentage)	68	66	77	(2.9)%	16.7%
RGUs (in thousands, except percentage)	107	111	136	3.7%	22.5%
Revenue (euro in millions, except percentage)	35[(1)]	33	34	(5.7)%	3.0%

(1) Unaudited and restated.

In 2009, residential ULL revenues increased by €1 million, or 3%, to €34 million from €33 million in 2008, reflecting increased focus on this business segment, which resulted in an increase in the number of our ULL customers, offset in part by a decrease in variable fee revenues. ULL customers increased by 11,000, or 16.7%, to 77,000 at the end of 2009 from 66,000 at the end of 2008.

In 2008, residential ULL revenues decreased by €2 million, or 5.7%, to €33 million from €35 million in 2007 reflecting a decrease in ULL customers. ULL customers decreased by 2,000, or 2.9% to 66,000 at the end of 2008 from 68,000 at the end of 2007.

Business Services

In 2009, business services revenues, which represented 22.1% of our revenues, decreased by €21 million, or 5.9%, to €334 million from €355 million in 2008, primarily as a result of declines in each of our business segments, reflecting lower volumes of traffic owing to the adverse macroeconomic environment during the period as well as Orange's decision to use its own network instead of buying our excess network capacity.

SMEs

The following table sets forth revenues and customers from SMEs services and the percentage change from period to period:

	As of and for December 31,			Percentage change	
	2007	2008	2009	07/08	08/09
Customers (in thousands, except percentage)	69	69	67	—	(3.0)%
RGUs (in thousands, except percentage)	121	130	111	7.4%	(14.6)%
Revenue (euro in millions, except percentage)	76[1]	73	70	(3.9)%	(4.1)%

(1) Unaudited and restated.

In 2009, SME revenues, which represented 4.6% of our revenues, decreased by €3 million, or 4.1%, to €70 million from €73 million in 2008. SMEs customers decreased by 3.0%, to 67,000 as of December 31, 2009 from 69,000 as of December 31, 2008. The decline in revenue primarily reflects the difficult macroeconomic environment, which placed significant pressure on SMEs in Spain. This was especially noticeable in the number of SME disconnections and in the difficulty in acquiring new customers.

In 2008, SME revenue decreased by €3 million, or 3.9%, to €73 million from €76 million in 2007. SMEs customers remained stable at 69,000 as of December 31, 2008 and 2007. The decline in revenue primarily reflects less telephony variable consumption, despite stable customer numbers.

Large Accounts & Corporations

In 2009, our large accounts and corporations revenues decreased by €10 million, or 5.7%, to €166 million from €176 million in 2008. This segment was significantly impacted by the lower minutes of use experienced in the overall traffic in the market as well as by the loss of some customers.

In 2008, large accounts and corporations revenues increased by €5 million, or 2.9%, to €176 million from €171 million in 2007, primarily reflecting our focus on targeting high-value customers.

Wholesale & Other

In 2009, revenues from wholesale and other services decreased by €8 million, or 7.5%, to €98 million from €106 million in 2008. This decline is mainly due to the migration by Orange as discussed above.

In 2008, revenues from wholesale and other services decreased by €43 million, or 28.9%, to €106 million from €149 million for the year ended December 31, 2007. This decline is mainly due to the migration by Orange and because of the loss of a large account.

Indirect Access Services

In 2009, indirect access revenues decreased by €9 million, or 47.4%, to €10 million from €19 million in 2008. In 2008 indirect access revenue decreased by €15 million, or 44.1%, to €19 million from €34 million in 2007. The declining trend of our indirect access revenue primarily reflects our decision to focus on our residential services.

Operating Expenses

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

	For the year ended December 31,			Percentage change	
	2007[1]	2008	2009	07/08	08/09
	(euro in millions)				
Cost of sales	442	381	328	(13.8)%	(13.9)%
Staff costs	213	225	171	5.6%	(24.0)%
Other operating expenses	387	365	344	(5.7)%	(5.8)%
Less capitalized costs	(71)	(78)	(61)	9.9%	(21.8)%
Depreciation, amortization & impairment charges	343	389	390	13.4%	0.3%
Reversal of provisions	(13)	(15)	—	15.4%	n/a
Impairment and gains or losses on disposal of fixed assets	211	16	11	(92.4)%	(31.3)%
Other-losses/gains-net	55	39	—	(29.1)%	n/a
Total operating expenses	**1,567**	**1,322**	**1,183**	**(15.6)%**	**(10.5)%**

(1) Unaudited and restated.

In 2009, our operating expenses decreased by €139 million, or 10.5%, to €1,183 million from €1,322 million in 2008 mainly driven by (i) the headcount reduction plan implemented in January 2009 with a direct impact on personnel expenses; (ii) the new sales strategy with focus on cost-efficient sales channels; (iii) other organizational initiatives; and (iv) several content contract renegotiations.

In 2008, our operating expenses decreased by €245 million, or 15.6%, to €1,322 million from €1,567 million in 2007. The decrease of our operating expenses mainly reflects the cost efficiency measures implemented in mid-2008 and discussed above.

Cost of Sales. In 2009, our cost of sales decreased by €53 million, or 13.9%, to €328 million from €381 million in 2008. As a percentage of total revenues, our cost of sales decreased to 21.7% in 2009 as compared to 23.8% in the previous year. In 2008, our cost of sales decreased by €61 million, or 13.8%, to €381 million from €442 million in 2007. As a percentage of total revenues, our cost of sales decreased to 23.8% in 2008 from 27.3% in 2007. The decreases in cost of sales primarily reflect cost efficiency measures implemented in mid-2008 as discussed earlier.

Staff Costs. In 2009, our staff costs decreased by €54 million, or 24.0%, to €171 million from €225 million in 2008. The decrease relates to the headcount reduction plan closed on April 18, 2009. In 2008, our staff costs increased by €12 million, or 5.6%, to €225 million from €213 million in 2007. The increase relates to the CPI increase in salaries and severance payments, as the number of employees remained broadly flat in the two years (the average number of employees in 2008 was 4,594 compared to 4,618 in 2007).

Other Operating Expenses

A breakdown of other operating expenses is as follows:

	For the year ended December 31,			Percentage change	
	2007[1]	2008	2009	07/08	08/09
	(euro in millions)				
Leases and canons	50	58	54	16%	(6.9)%
Repairs and maintenance	73	72	64	(1.4)%	(11.1)%
Service of independent professionals	121	95	90	(21.5)%	(5.3)%
Advertising	55	47	42	(14.5)%	(10.6)%
Other services	40	47	40	17.5%	(14.9)%
Taxes	19	19	19	—	—
Impairment of trade receivables	28	27	34	(3.6)%	25.9%
Total other operating expenses	**387**	**365**	**344**	**(5.7)%**	**(5.8)%**

(1) Unaudited and restated.

In 2009, other operating expenses decreased by €21 million, or 5.8%, to €344 million from €365 million in 2008. The decrease in other operating expenses was mainly a result of the reduction in repairs and maintenance of 11.1%, the reduction in advertising of 10.6% and the reduction in other services of 14.9%. In 2008, other operating expenses decreased by €22 million, or 5.7%, to €365 million from €387 million in 2007. The decrease was mainly a result of the reduction in advertising of 14.5% and the reduction in services of independent professionals of 21.5%, partially offset by an increase in certain other expenses.

Capitalized Costs. In 2009, capitalized costs decreased by €17 million, or 21.8%, to €61 million from €78 million in 2008. The decrease in capitalized costs primarily resulted from our cessation of network expansion activity. In 2008, capitalized costs increased by €7 million, or 9.9%, to €78 million in 2008 from €71 million in 2007. The increase in capitalized costs principally related to increased installation activity and increased staff costs.

Depreciation, Amortization & Impairment Charges. In 2009, depreciation, amortization and impairment charges increased by €1 million, or 0.3%, to €390 million from €389 million in 2008. The increase was relatively small because we cancelled network expansion activities in mid-2008. In 2008 these charges increased by €46 million, or 13.4%, to €389 million from €343 million in 2007, primarily as a result of significant network construction activity in 2007.

Reversal of Provision. In 2008, we reversed provisions in the amount of €15 million. In prior years we had recognized certain provisions in connection with contributions to the National Universal Service Fund. In connection with a review of such provisions following a CMT decision, we reversed a portion of the provisions. In 2007, we reviewed our provisions, particularly those made in connection with our acquisition of Auna and, as a consequence of that review, recognized a reversal of provisions in the amount of €13 million.

Impairment and Gains or Losses on Disposal of Fixed Assets. In 2007, we performed an impairment test on the goodwill we recorded in connection with the acquisition of Auna. This test determined that the goodwill would not be recoverable and, therefore, an exceptional loss of €189 million was recognized. We also recognized other impairments in each period.

Other-losses/gains-net. In 2008, we recognized €39 million in other losses, primarily relating to restructuring and our headcount reduction plan. In 2007, we recognized €55 million in other losses, primarily relating to the reclassification of certain expenses and income that we were required to reclassify when we adopted Spanish GAAP in 2008.

Operating Profit

Our operating profit increased by €49 million, or 17.5%, to €329 million in 2009 from €280 million in 2008 and by €231 million, or 471.4%, to €280 million in 2008 from €49 million in 2007. Our operating profit margin was 3.0% in 2007, 17.5% in 2008 and 21.7% in 2009. The increases in our operating profit and operating profit margin are the result of the factors discussed above.

Net Financial Expense

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

	As and for the year ended December 31,			**Percentage change**	
	2007[1]	**2008**	**2009**	**07/08**	**08/09**
			(euro in millions)		
Financial income	5	7	4	40.0%	(42.9)%
Interest expense	(245)	(258)	(230)	5.3%	(10.9)%
Other financial charges	(44)	(53)	(30)	20.5%	(43.4)%
Changes in fair value of financial instruments	—	—	7	—	—
Impairment and gain or losses for financial instrument disposal	—	—	4	—	—
Net financial expense	**(284)**	**(304)**	**(245)**	**7.0%**	**(19.4)%**

(1) Unaudited and restated.

In 2009, net financial expense decreased by €59 million, or 19.4%, to €245 million from €304 million in 2008. This was due to the decline in Euribor rates towards the end of 2008 and the costs of an amendment of the Senior Facility carried out in 2008.

In 2008, net financial expense increased by €20 million, or 7.0%, to €304 million from €284 million in 2007. This was due to the cost of an amendment of the Senior Facility in July 2008 and the full drawing of our revolving credit facility under the Senior Facility, coupled with the higher Euribor interest rate. We fully drew our revolving credit facility because of the uncertainties surrounding the global financial crisis.

Income Tax Expense

Prior to 2009, we have incurred losses every year since we began operating except 2003. We book the related tax credits in our financial statements. In the year ended December 31, 2009 we generated a net profit before tax and accordingly recognized income tax of €31 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. Due to our tax loss carry-forwards, we did not pay cash tax in 2009.

Liquidity and Capital Resources

Our liquidity requirements arise primarily to meet our ongoing debt service obligations and to fund working capital and capital expenditure requirements. Our principal sources of funds are cash flow from operations, cash and cash equivalents on our balance sheet, borrowings under our Senior Facility and borrowings under other financing agreements. As of September 30, 2010, on a pro forma basis (after taking into account the October 2010 Refinancing and the issuance of the Notes and the use of the gross proceeds therefrom as described in "*Use of Proceeds*"), we would have had approximately €46 million of cash and cash equivalents and €242 million available lines under undrawn credit facilities, for a total liquidity as of September 30, 2010 of €288 million.

In the next three years we have significant debt maturity payments. As of September 30, 2010, on a pro forma basis and after taking into account the October 2010 Refinancing and the issuance of the Notes offered hereby and the use of the gross proceeds therefrom as described in "*Use of Proceeds*," €2,346 million of our debt (comprising debt under the existing Bank Tranches of the Senior Facility) will mature in 2013. We expect these maturities to be met through available cash and cash equivalents and operating cash flows, as well as further refinancings. The current macroeconomic environment as well as the outlook for the Spanish economy, particularly the increase in the unemployment rate and its impact on disposable income and business spending, will limit our ability to generate enough cash to meet such debt maturity payments as they become due. Accordingly, a substantial amount of these debt maturities will need to be refinanced. For a discussion of the risks related to our borrowings, see "*Risk Factors—Risks Relating to Our Financial Profile*".

In order to mitigate these risks, in 2008 we started a transformation plan that includes several initiatives designed to improve our financial position. These initiatives include the discontinuation of our network build-out, implementation of a headcount reduction plan, as well as other cost efficiency programs. The positive impact from these initiatives was evident in 2009 and the first nine months of 2010. See "*—Factors Affecting Our Business During the Period Under Review*" above.

In addition to the measures described above, during the first nine months of 2010 we undertook a refinancing plan whereby we amended our Senior Facility (i) to extend maturities by creating additional term loan tranches under the Senior Facility through "forward-start" facilities (such additional term loan tranches will mature on June 30, 2013 and will be drawn to partially extend maturities of tranches A, B and I of the Senior Facility falling due between June 30, 2010 and December 31, 2012); (ii) to create an additional €64 million revolving tranche that will mature on July 31, 2012; (iii) to facilitate future debt refinancing by permitting the creation in the future of additional term loan tranches under which the proceeds from debt capital markets instruments raised by a special purpose vehicle (such as the Senior Secured Notes issued as part of the October 2010 Refinancing) or new bank debt will be on-lent to the Company to partly refinance Existing Bank Tranches under the Senior Facility; (iv) to reset financial covenants; (v) to add PIK interest if certain conditions relating to the refinancing of Existing Bank Tranches are not met (this obligation has fallen away as a result of the October 2010 Refinancing) and (vi) to amend some definitions. After the amendment, the maximum available amount under the Senior Facility decreased from €3,600 million to €3,555 million. The purpose of the amendment was to provide us with additional flexibility to meet our principal amortization obligations and permit management to focus on continuing to enhance operations and increase cashflow. For a description of the Senior Facility, see "*Description of Other Indebtedness—Senior Facility*" and for a pro forma maturity calendar, adjusted to reflect the issuance of the Notes and the use of gross proceeds therefrom, see "*—Financing Arrangements*" below.

As part of the refinancing process, our shareholders contributed €125 million to us in the form of a deeply subordinated participative loan and a further €25 million currently held in escrow to be disbursed to us under similar arrangements if we do not meet certain liquidity conditions. See "*Shareholders and Beneficial Owners—PIK Loan and 2010 Downstream Loan*." Prior to the closing of the offering, it is intended that all of the subordinated participative loans will be capitalized into equity. See "*Shareholders and Beneficial Owners—Capitalization Transactions*".

As part of the October 2010 Refinancing, on October 22, 2010 we completed the issuance of the €700 million 8.875% Senior Secured Notes due 2018 by Nara Cable Funding. The proceeds therefrom were on-lent to Cableuropa pursuant to the Senior Secured Notes Tranche of the Senior Facility and were used to partially prepay drawn amounts under tranches A, B, I, E and I2 of the Senior Facility, thereby extending the overall maturity of our debt.

Historical Cash Flows

The following table sets forth our historical cash flows for each of the periods under review.

	Year ended December 31,			Nine months ended September 30,	
	2007[(1)]	2008	2009	2009	2010
	(euro in millions)			(unaudited)	
Cash flows from operating activities	207	229	312	168	275
Cash flows from investing activities	(551)	(373)	(223)	(149)	(177)
Cash flows from financing activities	341	481	(192)	(122)	(230)
Net increase/decrease in cash and cash equivalents	(3)	338	(104)	(103)	(132)

(1) Unaudited and restated.

Cash from operating activities. In the nine months ended September 30, 2010 cash flows from operating activities increased by €107 million, or 63.7%, to €275 million from €168 million in the nine months ended September 30, 2009 primarily due to working capital improvements driven by improved collection processes which reduced the average collection period, the receipt of €46.6 million from Sogecable as part of a court ruling and a reduction in our operating expenses and investments, which in turn led to a reduction in cash payments to suppliers, and due to the fact that the first nine months of 2009 included costs related to our redundancy plan.

Cash flows from operating activities increased by €83 million, or 36.2%, to €312 million in the year ended December 31, 2009 from €229 million in the year ended December 31, 2008, and increased by €22 million, or 10.6%, to €229 million in the year ended December 31, 2008 from €207 million in the year ended December 31, 2007. Our net cash flows from operating activities has continuously improved over the three years ended December 31, 2009, mainly as a result of the improvement in our operating results and, as mentioned above, due to working capital improvements driven by improved collection processes which have reduced the average collection period and due to the reduction in our operating expenses and investments, which in turn has led to a reduction in cash payments for suppliers.

Changes to Spanish law with respect to invoicing mean that our typical payment period of 85 days will be first reduced to 75 days as of January 2011 and then 60 days as of January 2013. Each of these reductions will have negative impacts on our working capital.

Cash flows from investing activities. In the nine months ended September 30, 2010 cash flows from investing activities increased by €28 million, or 18.8%, to €177 million from €149 million in the nine months ended September 30, 2009 due to the ongoing deployment of Docsis 3.0 technology. Cash flows from investing activities decreased by €150 million, or 40.2%, to €223 million in the year ended December 31, 2009 from €373 million in the year ended December 31, 2008, and decreased by €178 million, or 32.3%, to €373 million in the year ended December 31, 2008 from €551 million in the year ended December 31, 2007. The decreases reflected our decision to cease network expansion activity in mid-2008.

Cash flows from financing activities. Cash flows from financing activities for September 30, 2010 were a negative €230 million, reflecting the use of cash flows from operating activities and available cash to reduce borrowings under our Senior Facility and short-term credit lines and to make our final deferred payment relating to the acquisition of Auna.

Cash flows from financing activities in September 30, 2009 were a negative €122 million reflecting the use of available cash to make a deferred payment relating to the Auna acquisition and to reduce borrowings under our short-term credit lines.

Cash flows from financing activities for the year ended December 31, 2009 were a negative €192 million, reflecting the use of cash flows from operations and available cash to make a deferred payment relating to the Auna acquisition, repayment of borrowings under certain of our short-term credit lines and the first amortization payments required under our Senior Facility.

Cash flows from financing activities in 2008 were €481 million, reflecting our decision to fully draw our revolving credit facility in order to preserve liquidity and to avoid any counterparty risk that could arise from the financial crisis, resulting in a substantial increase of cash and cash equivalents to €342 million as of December 31, 2008.

Cash flows from financing activities for the year ended December 31, 2007 were €341 million, reflecting increased borrowings under our Senior Facility to finance our network expansion.

Capital Expenditures

Our capital expenditures primarily relate to set-top box purchases and other customer capital expenditures, installations, network build-out, upgrades, maintenance and other investments, computer hardware and software and content rights.

Capital expenditures amounted to €170 million for the nine months ended September 30, 2010 compared to €150 million for the first nine months ended September 30, 2009. We incurred capital expenditures of €220 million, €374 million and €554 million in 2009, 2008 and 2007 respectively. These decreases until 2010 were primarily due to the cessation of network expansion activities as part of our decision to preserve liquidity given the weak economic environment and the state of financial markets. We expect that our total capital expenditure in 2010 will be in the range of €230 million to €260 million and in 2011 in the range of €250 million to €300 million. The level and timing of capital expenditures we actually make will depend on the nature of network investments, maintenance and upgrades and the number of installations, among other things.

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 and cash equivalents. As of September 30, 2010, we had €3,266 million outstanding under the Senior Facility. In addition, we had €450 million in Existing Subordinated Notes, €10 million outstanding under the Fond-ICO Participative Loan and an additional €6 million in short-term credit lines, mortgages and leases. We intend to refinance the Existing Subordinated Notes and repay the Fond-ICO Participative Loan with the gross proceeds of the offering and available cash (see "*Use of Proceeds*"). In addition to the foregoing indebtedness, as of September 30, 2010, we had approximately €22 million of Spanish state subsidized financing outstanding. This subsidized financing is backed mainly by guarantees under the Senior Facility. As of September 30, 2010, we had €242 million of undrawn availability under our credit facilities.

We may incur additional indebtedness in the future principally to fund our interest expenses, working capital needs and, to the extent not covered by operating cash flows, capital expenditures. Any drawings under the Senior Facility are subject to the satisfaction of certain conditions precedent and compliance with covenants, including the maintenance of certain ratios. See "*Description of Other Indebtedness*".

The pro forma maturity calendar of our outstanding debt as of September 30, 2010, having taken into account the October 2010 Refinancing and the issuance of the Notes and the use of the gross proceeds therefrom as described in "*Use of Proceeds*," is summarized in the following table:

	Expected Maturity Date												
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total borrowings**
Debt with credit entities													
Senior Facility[(1)]	—	49	171	2,346	—	—	—	—	700	—	—	—	**3,266**
Bank Tranches	—	49	171	2,346	—	—	—	—	—	—	—	—	**2,566**
Senior Secured Notes Tranche[(2)]	—	—	—	—	—	—	—	—	700	—	—	—	**700**
Other credit facilities[(1)]	—	4	1	1	—	—	—	—	—	—	—	—	**6**
Total debt with credit entities	**—**	**53**	**172**	**2,347**	**—**	**—**	**—**	**—**	**700**	**—**	**—**	**—**	**3,272**
Other debt													
Notes offered hereby	—	—	—	—	—	—	—	—	—	460	—	—	**460**
State subsidies & other	1	10	8	1	1	—	—	—	—	1	—	—	**22**
Total other debt	**1**	**10**	**8**	**1**	**1**	**—**	**—**	**—**	**—**	**461**	**—**	**—**	**482**
Total debt	**1**	**63**	**180**	**2,348**	**1**	**—**	**—**	**—**	**700**	**461**	**—**	**—**	**3,755**

(1) In nominal value and not including €3 million of accrued interest payable. As of September 30, 2010, we had €234 million of undrawn availability under our Senior Facility and we had €8 million of undrawn availability under other credit facilities.

(2) The Senior Secured Notes Tranche matures on the final maturity date of the Senior Facility (December 31, 2013) and its maturity will be automatically extended through a forward start agreement to match the maturity date of the Senior Secured Notes in December 2018. See *"Description of Other Indebtedness"*.

Contractual Obligations

Our estimated contractual obligations (excluding the outstanding financial debt discussed above and the other financial obligations discussed below) as of September 30, 2010, are shown in the table below:

	Before December 31, 2010	**Between 1-2 from December 31, 2010**	**Between 2-5 from December 31, 2010**	**Between 5-8 from December 31, 2010**	**More than 8 years from December 31, 2010**	**Total**
			(euro in millions) (unaudited)			
Building lease obligations[(1)]	3	24	9	3	3	42
TV content purchase obligations[(2)]	9	46	28	5	—	88
Other contract purchase obligations[(3)]	41	166	135	80	226	648
Equity Value Certificates	—	15	—	—	—	15
Total	53	251	172	88	229	793

(1) Office and network related real estate leases.

(2) Television content purchase obligations.

(3) Fiber optic network rental obligations (including ENDESA, Iberdrola and ADIF), purchase commitments with network equipment suppliers (including Ericsson) and purchase commitments with customer premises equipments suppliers (including TiVo, Cisco and Huawei) and certain other purchase orders and provisions.

Set forth below is a description of our other contractual financial obligations, excluding financial debt and interest rate hedges.

Equity Value Certificates

In connection with the issuance of a series of notes in 2001 (which have been repaid), ONO Finance plc issued Equity Value Certificates ("EVCs"), comprising of 200,000 dollar- and 150,000 euro-denominated EVCs which originally evidenced the right to receive the cash value of 48.89512850 shares of Cableuropa in dollars, and of 45.98831311 shares of Cableuropa in euro, respectively, assuming €1.00 par value shares and subject to adjustment in certain circumstances.

The EVCs are due to be paid in 2011, although prepayment may be triggered under certain circumstances such as an initial public offering of the shares of Cableuropa. The EVCs are guaranteed by Cableuropa on a senior subordinated basis. In the July 2008 Senior Facility amendment process, GCO assumed responsibility for the total cost of retiring the EVCs on behalf of Cableuropa. Currently GCO owns over 88% of the EVCs. For a description of the EVCs, see "*Description of Other Indebtedness—Equity Value Certificates*".

Guarantees

We have secured guarantees from certain Spanish credit institutions that guarantee our compliance with specific performance 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 Senior Facility includes a tranche to cover the guarantees. As of September 30, 2010, €20 million of this tranche was drawn to cover the amount of guarantees relating to subsidized loans.

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 interest rates or currencies.

It is our treasury policy to monitor and manage exposure to variable interest rate risk by managing the amount of our outstanding variable interest bearing debt. In order to reduce such interest rate risk, and as market conditions warrant, we may vary our position on interest rate hedging transactions and may purchase or trade the Notes, the Subordinated Notes or other financial debt from time to time in privately negotiated or open market transactions using funds available to us.

Interest Rate Risk

Borrowings under our Senior Facility (other than the Senior Secured Notes Tranche) bear interest at a floating rate determined by reference to Euribor plus a margin, which currently ranges from 1.75% to 3.00%, depending on the tranche. In addition, our other outstanding debt with credit entities usually bears interest at Euribor plus a margin.

Accordingly, as of September 30, 2010, on a pro forma basis and after taking into account the October 2010 Refinancing and the issuance of the Notes offered hereby and the use of proceeds therefrom, we had long-term floating rate debt outstanding of €2,594 million and are exposed to risk due to fluctuations of interest rates.

As of September 30, 2010, we had contracted €500 million of interest rate swaps to fix the interest rate applicable to our financial debt that matures on January 31, 2011. Accordingly, after January 31, 2011 all of our floating rate indebtedness is unhedged and we are therefore exposed to the risk of interest rate increases. See "*Risk Factors—Risks Related to Our Financial Profile—A substantial portion of our debt bears variable interest rates.*" We are evaluating whether to enter into any new hedging arrangements.

Currency Risk

Our operations are generally not subject to currency risk as our revenues and expenses are denominated in euros. All of our indebtedness is denominated in euros; however, following the issuance of the Notes offered hereby, we will have $ million (€ million equivalent) of U.S. dollar indebtedness outstanding relating to the Dollar Notes. Accordingly, following the offering of the Notes, we will be exposed to the risk of an increase in the value of the US dollar relative to the euro. See "*Risk Factors—Risks Related to our Financial Profile—Upon issuance of the Dollar Notes we will be subject to currency fluctuation risk*". We are evaluating whether to enter into any hedging arrangement with respect to all or a portion of our payment obligations under the Dollar Notes.

Critical Accounting Policies

We prepare our financial statements in accordance with Spanish GAAP, which differ in certain significant aspects from U.S. GAAP and IFRS. 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.

Tax Credits

We assess the recoverability of deferred income tax assets and tax credits on the basis of estimates of future results. The recoverability will, in the final analysis, depend on our ability to generate taxable profits during the period in which the deferred income tax assets may be deducted. The analysis takes into account the taxable profits estimated on the basis of internal projections that are updated to reflect the most recent trends, assumptions and information. Actual flows of amounts received and paid for income tax may differ from our estimates as a result of changes in tax legislation or unforeseen future transactions that might affect the tax balances.

Valuation of Equity Value Certificates

The valuation of, and liabilities under, our EVCs issued in 2001 and maturing in 2011 are based on the estimated value of our shares as there is no current market price for the shares. The gain or loss resulting from a reassessment of the value of the liabilities associated with the EVCs is recorded as income or loss, as appropriate, in the consolidated income statement.

For a description of the EVCs, see "*—Liquidity and Capital Resources—Contractual Obligations—Equity Value Certificates*."

Impairment of Assets

The accounting treatment of investment in property, plant and equipment and intangible assets means that estimates must be made to determine their useful lives for the purposes of depreciation or amortization.

The determination of useful lives requires estimates regarding expected technological evolution and alternative uses of the assets. Assumptions regarding the technological environment and its future development imply a significant degree of judgment, inasmuch as the time and the nature of future technological changes are difficult to predict.

When impairment of fixed assets is identified, a value adjustment is recognized and charged to the income statement for the period. The determination of the need to recognize an impairment loss implies making estimates that include, among others, an analysis of the causes of the possible impairment and the time and the expected amount thereof. Likewise, factors such as technological obsolescence, the suspension of certain services and other changes in circumstances that create the need to assess possible impairment are taken into account.

Fair Value of Derivatives and Other Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. We select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date. We have used discounted cash flow analysis as well as third party valuations to determine the fair value of the derivatives and other financial assets and liabilities.

Provisions

Provisions are recognized when we have a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. The obligation may be legal or constructive, derived from, among other factors, regulations, contracts, normal practices or public commitments that create a valid expectation for third parties that we will accept certain liabilities. The provision is measured by the best estimate of the payment that will be necessary to settle the relevant obligation, taking into consideration all the information available on the closing date for the financial statements, including the opinions of independent experts, such as legal advisors or consultants. Due to the unpredictability inherent in estimating the amount of provisions, the actual payments may differ from the amounts initially recognized on the basis of the estimates made.

BUSINESS

Overview

We are the second largest provider of broadband internet, pay television and fixed telephony services in Spain. Through our proprietary state-of-the-art network, we offer our services to over 7 million homes across Spain, including the nine largest cities. We are the only cable operator in Spain with national coverage. As of September 30, 2010, we provide over 4.3 million services under the ONO brand to approximately 1.9 million residential (cable and ULL) customers and over 69,000 SMEs in Spain. We also offer products and services to large corporations and public sector entities as well as to the wholesale market. We are the principal competitor to the incumbent telecommunications and pay television operators in Spain. For the twelve months ended September 30, 2010, we generated revenues of €1,475 million, EBITDA of €725 million and an EBITDA margin of 49.2%. In the same period, our residential services generated revenues of €1,157 million (accounting for 78.4% of our total revenues), and our business and other services generated revenues of €318 million (accounting for 21.6% of our total revenues).

Residential Services

As of September 30, 2010, our residential cable customers totaled over 1.8 million, representing approximately 95.6% of our total residential customer base. We offer customers the opportunity to subscribe to a variety of "bundled" packages, which provides them with multiple services (broadband internet, pay television and telephony) charged in a single bill. "Double-play" packages bundle two of our services together, whereas "triple-play" packages allow customers to utilize each of our broadband internet, pay television and telephony services. As of September 30, 2010, 82.6% of our residential cable customers subscribed to a bundled package. The following is a summary of our services for residential cable customers:

Broadband Internet: We are a leading provider of residential broadband internet services in our areas of operation. Our internet customer base grew by 3.4% in 2009 and 2.7% in the first nine months of 2010. As of September 30, 2010, we had approximately 1.4 million internet customers, representing 75.3% of our total residential cable customer base. We were the first Spanish operator to launch broadband speeds of 50 Mbps and 100 Mbps and, with the ongoing implementation of Docsis 3.0, we anticipate soon having 50 Mbps broadband speeds available widely throughout our network.

Cable Television: We are a leading provider of pay television services in Spain with 948,000 customers as of September 30, 2010, representing 52.4% of our total residential cable customers. We offer a wide selection of digital cable television programming from basic to premium packages. Each of our TV packages also provides easy access to our pay-per-view and VoD services, where available. We recently signed a strategic agreement with TiVo (a U.S. digital video company) to deploy an innovative set of next generation TV services, which we expect to start offering in 2011 and to provide a seamless convergence between internet and traditional television content.

Telephony: We provide local, national and international telephony services to 1.7 million customers, representing 92.8% of our total residential cable customer base, as of September 30, 2010. We recently signed a strategic agreement with Huawei to upgrade and outsource our voice network. We believe this agreement will reduce operating costs while maintaining the quality of our telephony service.

We also offer services through ULL and other technologies, such as indirect access. As of September 30, 2010, we had over 84,000 ULL customers. In addition, we offer all our cable customers mobile telephony and internet services.

Business Services

We also provide telecommunication services to SMEs, large accounts and corporations and the wholesale market in Spain.

SME: We provide voice and data telecommunication services to small and medium sized enterprises. As of September 30, 2010, we had over 69,000 SME customers.

Large Accounts & Corporations: We provide a range of customized solutions (voice, internet, data and equipment) to corporations, institutions and public sector entities.

Wholesale & Other: We provide carrier services, voice traffic services, leased and dedicated lines and circuits and ISP solutions to other telecommunications operators. In addition, we provide intelligent network services.

Our History

Formation

Before commencing operations in 1998, we participated in a number of competitive public bids further to the adoption of Spain's Law 42/1995 on Cable Telecommunications. Between 1996 and 1998, we were awarded licenses to

provide cable television and telecommunications services in the following nine regions: Valencia, Alicante, Castellón, Murcia, Cádiz, Huelva, Cantabria, Mallorca and Albacete. In 2003, we were awarded a license to operate in Castilla la Mancha. In 2004, we acquired the telecommunications operator Retecal, covering the Castilla y Leon region.

In November 2005, we acquired Auna, a wireline and cable operator. The acquisition consolidated our presence in Spain and extended our coverage to seven additional regions, which included Spain's largest cities, Madrid and Barcelona. Following the Auna acquisition, we continued to pursue an expansion strategy of extending our network and acquiring new customers. Between 2006 and 2008 we invested substantially in expanding the footprint of our network infrastructure, with the number of homes released to market increasing by 1.2 million to over 7 million.

Transformation Process

Towards the end of 2008, faced with weakening international economic conditions, we commenced a transformation process. The transformation focused on adjusting our business model to the changed economic environment and stabilizing our operations following a period of rapid expansion, with the aim of creating a more efficient platform for future growth. This process also coincided with significant changes in our senior management. Largely completed by the end of 2009, the transformation process included a wide range of initiatives focused on maximizing cash flow, implementing cost efficiency improvements, reshaping our organization and attracting and retaining high-quality customers. As a result of the transformation, we believe we have become a more resilient and efficient company. Our EBITDA increased from €645 million in 2007 to €730 million in 2009, our EBITDA margin increased from 39.9% in 2007 to 48.3% in 2009 and operating free cash flow increased from €91 million in 2007 to €510 million in 2009.

During the transformation process, we focused primarily on:

Optimizing returns from assets: Having already invested to establish a network reach of over 7 million homes, we ceased our network expansion activities and focused on maintaining and enhancing our existing network. We have undertaken several platform upgrades, such as our ongoing implementation of Docsis 3.0 and improvement of our cable television service offerings. Other initiatives included improving our receivables collection cycle.

Reshaping our organization: We centralized our business operations, eliminating duplicate regional functions and reducing headcount. A shift towards internet sales and other more cost efficient sales channels led to a reduction of our direct sales force. In the first nine months of 2010, 22.2% of our sales were through the internet, compared to 4.6% in the same period in 2008. The average number of our employees has declined from 4,594 for 2008 to 3,314 for the nine months ended September 30, 2010. In addition, in April 2010 we sold our loss-making content aggregator, Teuve.

Cost efficiencies: We implemented a wide range of cost efficiency initiatives, resulting in our cost of sales, staff costs and other operating expenses (less capitalized costs) declining from €971 million in 2007 to €782 million in 2009, or 19.5%. In addition to the organizational changes described above, other key initiatives included selective outsourcing, renegotiating various contracts and migrating our customers to an e-billing system.

Focusing on high-quality customers: We placed a strong emphasis on attracting and retaining high-quality customers. We introduced a credit scoring initiative and increased activation and installation fees in order to reduce the number of new high-churn customers. In addition, we improved our customer care processes and offered our existing customers add-on services, such as mobile broadband and the Gol TV channel, in order to increase their loyalty. As a result, we reduced net churn from 19.6% in the third quarter of 2008 to 15.1% in the third quarter of 2010. We also shifted our marketing focus to promote double- and triple-play packages, which we believe can help us achieve higher ARPUs and greater loyalty. As part of this initiative, we offered to double the broadband internet speeds to the majority of our residential cable customers for an additional small monthly fee, with wide acceptance. We also launched a new marketing campaign emphasizing the superiority of cable versus DSL in terms of speed and quality of service. As a result of these and other measures, the percentage of our customers subscribing to triple-play services increased from 32.0% as of September 30, 2007 to 37.8% as of September 30, 2010 and our RGUs per customer increased from 2.00x as of December 31, 2007 to 2.20x as of September 30, 2010.

Refinancing

In the beginning of 2010, we initiated a multi-stage refinancing process. On May 21, 2010, we completed the first step of the refinancing process as part of which we amended our Senior Facility to extend the maturities of certain existing financing tranches and allow for additional financing tranches to facilitate future refinancings. As part of the refinancing process, we also received additional support from our shareholders in the form of a deeply-subordinated participative loan, of which €125 million was made available immediately and €25 million is currently held in escrow to be disbursed if certain liquidity conditions are not met. In October 2010, we completed the second step of our refinancing process which consisted of (i) the issuance of €700 million Senior Secured Notes by Nara Cable Funding the proceeds of which were on-lent to Cableuropa pursuant to a new tranche under the Senior Facility and (ii) the repayment of €700 million of existing bank tranches under the Senior Facility from the gross proceeds of the Senior Secured Notes. The present offering of Notes represents the third step of our refinancing process. Going forward, we plan to continue to access the capital markets, subject to favorable market conditions, in order to improve the maturity profile of our indebtedness.

Our Key Strengths

Our key strengths are:

- *Proprietary technologically-advanced 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 improved services, such as higher broadband speeds and our proposed next generation TV services. As we own all of our network, we enjoy superior economics in terms of gross margin per subscriber compared to ULL-based competition.

- *Superior product and service offering.* We provide our customers with the fastest broadband internet service in the market with current speeds of up to 100 Mbps. According to a study published on October 20, 2010 by SETSI (*Secretaría de Estado de Telecomunicaciones y para la Sociedad de la Información*), part of the Spanish Ministry of Industry, Tourism and Commerce, our average real speed for 3 Mbps and 6 Mbps subscriptions was higher than promised (3.1 Mbps and 6.1 Mbps, respectively), which stands in contrast to the rest of the market. Our attractive cable television offering comprises up to 127 channels (including the recently added Canal+ channel) and video-on-demand availability and interactivity. We provide these products in a variety of bundles offering our customers the convenience of having a single provider for their fixed-line communication, entertainment and information needs. We believe that the combination of high internet speeds, high number of channels, innovative features, excellent quality of service and competitive pricing represents a superior offering to others available in the Spanish marketplace today. We believe our bundled offering results in increased penetration, higher customer loyalty and increased revenues from our customers.

- *Scale and potential for growth.* We are the second largest provider of broadband internet, pay television and fixed telephony services in Spain, with over 1.8 million residential cable subscribers as of September 30, 2010. Our state-of-the-art network gives us access to over 7 million homes across Spain including the nine largest cities. We believe that our relatively low penetration rate for residential cable services of 25.7% as of September 30, 2010 indicates significant potential for growth without the need to further expand our network coverage.

- *High-quality and loyal customer base.* We believe we have a high-quality and loyal customer base due to our selective customer acquisition strategy, superior product and service offerings and excellent customer service. We continue to focus on improving our customer service and enhancing our product offerings to existing and new customers. As a result we have been able to reduce our net churn, which has declined from 18.2% in the fourth quarter of 2007 to 15.1% in the third quarter of 2010. We believe that our high-quality and loyal customer base is a key element in our strategy going forward.

- *Resilient business.* Despite the challenging macroeconomic environment of recent years we have been able to limit the decline in our revenue from €1,616 million in 2007 to €1,512 million in 2009. Over this period we increased our residential cable RGUs by almost 200,000, while our residential cable customers declined by only 34,000 and residential cable revenues declined by 1.7%. We believe this is the result of our excellent customer care, our competitive and innovative service offering and our focus on high-quality customers through a selective customer acquisition strategy based on credit scoring. At the same time we increased our EBITDA from €645 million in 2007 to €730 million in 2009, improving our EBITDA margins from 39.9% in 2007 to 48.3% in 2009, primarily by implementing operational efficiencies which reduced our cost of sales, staff costs and other operating expenses (less capitalized costs) from €971 million in 2007 to €782 million in 2009, a decrease of 19.5%. We expect that a continuing focus on growing and retaining our customer base as well as controlling costs will enable us to maintain or improve our EBITDA margins.

- *Shareholder support and highly experienced management team.* Since we commenced operations in 1998, our shareholders have consistently supported the ONO Group, with contributions of €2 billion to GCO prior to May 2010. In May 2010 our shareholders made an additional contribution to enhance the liquidity of the business (with €125 million contributed to us in the form of a deeply subordinated participative loan and a further €25 million currently held in escrow to be disbursed to us under similar arrangements if we do not meet certain liquidity conditions). 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 delivering growth in the telecommunications business in a cost-efficient manner.

Our Strategy

Our strategy is to leverage our existing superior network infrastructure, to maintain and enhance our position as a leading provider of integrated broadband internet, cable television and telephony services and to improve our financial profile. In order to achieve these targets, we are continuing to focus on further developing our customer base and product offering as well as implementing initiatives with the objective of improving profitability, maximizing liquidity and reducing leverage:

- *Provide the best internet in the market.* Our strategy is to position ourselves as a high-quality, innovative service provider with competitive prices, taking advantage of our own state-of-the-art network. We strive for high quality of service and believe we compare favorably to competitors. The steps we have taken to implement this strategy include the delivery of "real" (i.e., as advertised) internet speeds and the ongoing Docsis 3.0 system upgrade (expected to be completed during the first quarter of 2011). The upgrade will enable us to provide faster and more reliable internet services with speeds significantly higher than our recently launched internet speed of 100 Mbps (we are currently the only provider in Spain to offer this speed).

- *Create the best TV experience in the market.* We seek to develop and offer a set of innovative products in the Spanish television market in order to grow our TV customer base, strengthen customer loyalty and increase revenues. We recently established an alliance with U.S. digital video company TiVo in order to offer a next generation TV service using set-top boxes manufactured by Cisco, which we expect will provide a seamless convergence between internet and traditional television content. We believe this will differentiate and significantly upgrade our television offerings compared to others in the market by providing users with a best-in-class experience and a wide variety of content that integrates broadcast and broadband television in a way that goes beyond the confines of traditional pay television.

- *Increase the number of high-quality customers.* We are undertaking a more focused customer acquisition strategy while at the same time protecting our customer base with loyalty initiatives. Our main strategy is to grow market share of our residential services, but we are particularly focused on higher-quality customers, which we believe can help us achieve higher ARPUs and lower net churn. Actions to implement this strategy include the use of credit scoring, the implementation of activation and installation fees, selective application of customer acquisition promotions and a change in marketing strategy to focus on more targeted campaigns. Our new advertising highlights the quality of our products in addition to the competitive prices at which we offer them.

- *Expand up-selling and cross-selling initiatives.* We seek to sell additional products and services to our existing customers, a practice to which we refer as cross-selling, or transfer them to higher value services, a practice to which we refer 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, or to transfer customers to higher broadband speeds and broader TV packages at similar or slightly higher prices. We believe that providing existing customers with a variety of new and enhanced services with tiered pricing options encourages them to take more than one of our services. Bundling and new pricing options are expected to increase the number of our double- and triple-play customers and thereby increase our RGUs per customer and protect ARPU stability. We also intend to continue developing customer loyalty by offering value-added services such as mobile broadband internet and internet security software.

- *Grow our SME business.* We believe there is opportunity to grow our SME business and gain market share in this business area. Different types of SME customers have different telecommunications service needs and respond to different sales and marketing approaches. Quality is of paramount importance for SME customers and we believe that we are well-positioned to deliver a quality service by utilizing our established proprietary state-of-the-art network and by offering competitive solutions.

- *Maintain cost discipline and maximize cash generation.* We achieved positive free cash flow for the first time in 2009. We increased our free cash flow by €433 million between 2007 and 2009, and we aim to continue to improve free cash flow generation through the marketing and product development initiatives described above as well as through continuous cost control. In addition, we are continuing to identify specific projects to improve the overall level of efficiency in all our activities, such as our ongoing focus on more cost efficient internet sales and marketing, which accounted for only 4.6% of our sales in the first nine months of 2008 but 22.2% in the first nine months of 2010.

- *Reduce our leverage.* We believe that by focusing on the strategies above, we can improve our cash flows and intend to use such cash flows primarily to reduce our indebtedness.

Our Products and Services

We currently provide a broad array of broadband internet, cable television and telephony services to our residential customers as well as broadband internet services and telephony to SMEs, large accounts and corporations, and the wholesale market. The following table sets out certain information with respect to our residential and business customers as at September 30, 2010:

(in thousands of customers)	As at September 30, 2010
	(unaudited)
Total Residential	**1,893**
Residential cable	1,809
Residential ULL	84
Business[1]	
SME	69
Indirect Access Customers	30

(1) We do not report numbers of customers in the "large accounts & corporations" and "wholesale & other" business segments because such data is not meaningful.

Residential Cable Services

Overview

As of September 30, 2010, our proprietary state-of-the-art network gave us cable access to over 7 million homes with coverage across Spain, including the nine largest cities. Currently, our customers enjoy the same service offering despite their geographic location, except in the Canary Islands, La Rioja and Navarra where our customers continue to have an analog TV offering.

In October 2008, we were the first operator to launch 50 Mbps broadband speeds and the first operator to launch 100 Mbps broadband speeds in October 2010. At present, we offer a number of internet access services, including speeds of 6 Mbps, 12 Mbps, 30 Mbps, 50 Mbps and 100 Mbps (with the exception of the Canary Islands, La Rioja and Navarra where speed is limited to 6 Mbps) and three television packages: "Esencial" (with 71 channels), "Extra" (with 106 channels) and "Total" (with 127 channels). All these television offers include VoD in the areas where this service is available.

The table below sets out certain information with respect to our residential cable broadband internet, television and telephony services:

	As of and for the nine months ended September 30, 2010
	(unaudited)
Residential Cable	
Homes released to marketing (thousands)	7,025
Cable customers (thousands)	1,809
Penetration (percentage)	25.7%
Net churn (percentage)	15.1%
ARPU (euro; most recent quarter)	50.8
RGUs (thousands)	3,988
Internet	1,361
Television	948
Telephony	1,679
RGUs per customer	2.20x

Bundled Services

In order to maximize revenues from each home released to marketing, we actively encourage customers to subscribe to more than one service by offering cost savings and the convenience of having a single supplier and a single point of contact and billing for all communication, entertainment and information needs. As of September 30, 2010, 82.6% of our residential cable customers had a bundled service (37.8% triple-play and 44.8% double-play).

We have adopted an aggressive triple-play strategy, using a tiered offer of bundled products. Customers who subscribe for more than one service enjoy a significant discount compared to the price of the corresponding services on an individual basis.

We offer the following bundled services (all of which include telephony) to new customers across the whole of Spain:

Broadband[(1)(2)]/TV[(3)]	No TV	TV Esencial	TV Extra	TV Total
No Broadband	—	€34.9	€39.9	€44.9
6 Mbps/300 kbps	€39.9	€44.9	€49.9	€54.9
12 Mbps/1 Mbps	€49.9	€54.9	€59.9	€64.9
30 Mbps/1 Mbps	€51.9	—	€59.9	€64.9
50 Mbps/3 Mbps	€59.9	—	€64.9	€69.9
100 Mbps/10 Mbps	€64.9	—	€69.9	€74.9

(1) Download/upload speeds.

(2) 30 Mbps, 50 Mbps and 100 Mbps download internet speeds depend on geographical availability.

(3) 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.

Note: The table presents monthly final prices (VAT excluded) as of December 31, 2010. Promotional activity may affect these prices. We also offer at no extra cost, basic telephony services which include free local and national fixed line calls.

In addition to monthly charges, customers also pay variable charges related to telephony usage, pay-per-view television programs, VoD and other value-added services and one-off charges, such as installation when its not promoted.

Broadband Internet

Our broadband internet service connects our customers to our local networks via cable modems at a variety of different speeds and prices. We offer unlimited downloads with all our packages.

During 2008, we started the deployment of Docsis 3.0 which allows us to offer our customers greater quality and high internet speeds. With the deployment of Docsis 3.0 we became the first operator in Spain offering 50 Mbps and 100 Mbps packages. The 50 Mbps service service was initially available only in Madrid, but we launched it on a wider scale in August 2010. On October 4, 2010, we also launched a new pilot program offering download speeds of up to 100 Mbps in certain areas. At present we are deploying Docsis 3.0 nationwide and currently, approximately 70% of the network upgrade has been completed, representing 5.0 million homes. We expect to complete the project during the first quarter of 2011. When the Docsis 3.0 upgrade process is complete, it will cover almost all of our network.

We seek to upgrade our customers to higher speeds from time to time and offer upgrade promotions. For example, during 2010 we offered to double the upload and download speeds to our current customer base for an additional monthly cost of €2 per month. Therefore, our 3 Mbps customer base was able to enjoy 6 Mbps while our 6 Mbps customer base was able to enjoy 12 Mbps, providing a substantial increase in value with only a small increase in costs.

We offer all our broadband customers "Centinela", a security program for internet navigation including antivirus and firewall software as well as other value-added services such as electronic mail, with unlimited number of email accounts, and anti-spam services. We also offer other value-added services for an additional fee, including "Easy Broadband Internet" which facilitates internet access configuration, a comprehensive security software package and remote assistance for problems and questions about computing and internet browsing.

Cable Television

We provide our television customers with a multi-channel pay television ranging from basic to premium packages. In addition, we offer all our television customers pay-per-view and VoD service, broadcasting movie premieres and live football programming. To avoid piracy, we provide the television content encrypted. Therefore, a decoder is required to receive the service, which is rented to customers for a rental fee that is usually included in the monthly fee of the respective customers bundle services. As with our other services, customers can subscribe to our television services as part of a bundled package.

Following the launch of digital television services in 2003, we discontinued the marketing of analog services to new customers despite continuing to provide analog services to existing customers. Currently over 96% of our cable television customers enjoyed our digital offering. The introduction of digital television has allowed us to increase our channel line-up as well as the ratio of use of our pay-per-view and VoD services. We provide customers with more than 127 digital channels, as well as an electronic programming guide. From our digital television centers in Madrid, we broadcast to all of our customers using our national network.

In December 2005, we launched a full VoD service, named “Videoclub”. As of September 30, 2010, “Videoclub” had almost 525,000 active customers. Using this service, our customers viewed more than 110 million events in 2009 (including both paid and free events).

We are currently developing a set of innovative solutions that we believe will help us increase TV customers and revenues. In June 2010, we entered into an agreement with U.S. digital video company TiVo, in order to offer next generation TV services which will allow customers to enjoy a convergence between internet content and traditional TV content. Under the contract, we will be the exclusive distributor in Spain of advanced television services from TiVo. The next generation TV service will use Cisco-manufactured set-top boxes and TiVo will become the exclusive software provider for these devices. Through the combination of our modern fiber optic network and TiVo’s television user experience, we expect to be able to offer Spanish homes one of the most advanced television and video services on the market through a best-in-class user experience and a world of content that integrates broadcast and broadband television in a way that goes beyond the confines of traditional pay television. Following the introduction of next generation TV, we will no longer be using Motorola set-top boxes and Cisco will become our exclusive set-top box provider. We plan to commence offering next generation TV in selected areas in 2011 and will roll out the service to other areas over time.

We offer our television services in a range of packages at different price levels in order to address the broadest possible cable television audience. 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: AXN, CNN, Discovery channel, Disney channels, Eurosport, Fox, MTV and Paramount Comedy. We also offer VoD movies from Hollywood studios, U.S. independent producers, and Spanish and other European producers. In July 2009 we signed a contract with Mediapro, the new owner of the Spanish football league content, to provide us with a premier football channel (Gol TV) with matches from the Spanish football league, the European Champions League and the main leagues in Europe and South America. As of September 30, 2010, we reached over 113,000 customers with the Gol TV channel. Mediapro also provides additional content that is not included in the Gol TV channel on a pay-per-view basis, including Spanish league and King’s Cup football matches. Unless extended or renewed, the Mediapro contract will expire after the 2011-2012 football season because Mediapro does not yet own the rights for subsequent seasons. However, due to the substantial size of our customer base, we expect to be able to negotiate access to premium football with the future owners after the 2011-2012 season. In November 2010, we signed a contract with DTS to provide us with Canal+ channel. We believe that this premium channel, which is included in all of our television packages on a pay-per-view basis, offers some of the best sports and cinema content in the Spanish market.

The table below shows the number and type of channels currently available to subscribers of our digital television service packages:

Digital offer	**TV Esencial**	**TV Extra**	**TV Total**
Standard channels	61	96	117
Pay-per-view channels[1]	10	10	10
VoD service (Videoclub)[2]	Included	Included	Included

(1) Includes six thematic channels (Baby, Barça, Canal+, Cazavisión, Gol TV and Playboy) and four other football channels.

(2) VoD services are provided on a free and pay basis. Programming includes music, feature films, TV series and adult content.

Telephony

Our residential telephony service offers direct access connectivity to our customers in our areas of operation . 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 (operating under the Movistar brand), Orange and Vodafone, among others.

We also seek to attract new customers from other networks by allowing customers to maintain their existing telephone number. Like other Spanish operators, we charge a portability fee for transferring a number to the ONO network, but we routinely offer this service at a reduced promotional rate.

We offer an “all included” direct access telephony service with all our packages, which includes free calls to any standard fixed-line telephone number in Spain. In contrast, other operators charge for line rentals and do not offer flat rates. For all our customers, we also offer a range of add-on services to our basic telephony service including a second line, second home phone line, vouchers for international calls and vouchers for mobile phones providing savings for those customers with intensive voice service usage to ensure their loyalty. Additionally, all our customers are offered a number of value-added services (on a basic or premium plan). These include voicemail, call waiting, call return, short code dialing, caller identification, selective barring of outgoing and some incoming calls, call return and an alarm clock service. We also offer telephone handsets for sale or rental.

We also offer all our customers our information service number at a competitive price. This service allows customers to inquire about the location and telephone numbers of restaurants, cinemas and theatres. Our competitors typically charge premium rates for this service.

We 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 competitively against those of other operators.

Mobile Broadband and Voice Services

In June 2008, we launched mobile broadband services for our residential cable customers. This service offers speeds of up to 7.2 Mbps through the mobile network so customers can enjoy wireless broadband, anywhere at any time. This product is bundled together with the ONO broadband internet service and includes the SIM cards and USB modems for mobile and regular broadband connection.

In September 2009, we launched a mobile voice service for our residential cable customers. We offer several different tariffs including flat fee and pay-per-use, in order to better meet market needs. In addition, we recently started offering handsets as a complement to our SIM card. We believe this could help make our mobile voice service offering more attractive to our existing and potential customers.

We also recently started to offer these services to our SME customers.

Residential ULL

We also market our broadband, internet services and telephony through Telefónica's ULL. As of September 30, 2010, we had over 84,000 ULL customers. Our ULL operations are focused primarily in Madrid and Catalunya and we view them as a complement to our core cable business.

Business Services

Small and Medium Enterprises (SMEs)

We provide our SME customers with a wide range of voice and data communications services. The experience that we have gained since the launch of operations has provided us with insights into the needs of SME customers. This knowledge led us to develop new services and to redesign sales and marketing processes in order to fulfill the needs of SME customers. As of September 30, 2010, we had over 69,000 SME customers.

SME businesses demand simple and understandable products and services that provide them with effective solutions to their communications requirements, generally at flat rate prices. To this end, we offer 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, mobile voice and data services, leased lines, VoIP, voice portals, hosting and housing, security and on-line backup.

We also address the specific telephony needs of our customers with various value-added services contained in our product portfolio, such as voicemail, call waiting, call return, short code dialing, 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 customers 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);
- Premium-rate numbers;
- PBX (private branch exchange) related services;
- Infrastructure services such as housing of servers; and
- Other value-added services such as domain name registration, e-mail accounts and web hosting.

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

Large Accounts & Corporations

We also offer telecommunications solutions to larger corporations and public sector entities. We develop and manage customized solutions for our customers' client base through an integrated range of networks.

Corporate accounts demand more specific and sophisticated services than SME customers. Because communications are becoming increasingly integrated in the business processes of larger companies, the quality of the services provided is a key factor. For this reason, all the services we offer to our corporate customers are supported by specific service level agreements.

We also use telecommunications consultants who assess our customers' needs and provide innovative communication solutions, which are adapted to each customer. In addition, we have established strategic alliances with large corporations such as Cisco, Avaya, Microsoft and Indra, which help us to improve the quality and breadth of the services we offer.

We have developed dedicated provisioning, installation and customer attention teams and have set up 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 within ONO, which allows us to provide customized solutions on a proactive basis to our large customers' communications requirements. Currently, we provide a wide range of customized services to our corporate clients, including:

- Multiprotocol Label Switching ("MPLS") Virtual Private Networks, with a wide variety of access technologies including mobile and additional features;
- Virtual Private LAN Service ("VPLS") networks using Ethernet access technology;
- Complete voice solutions, including corporate telephony services over IP and the most sophisticated solutions on intelligent network services;
- Internet access;
- Firewall management and virtual ISP; and
- Business Platform services, including hosting, messaging and video streaming.

Wholesale & Other

Through our wholesale and other segment, we offer services to other operators aiming to use the excess capacity on our nationwide network. These services include infrastructure (carrier services) and traffic management services (voice traffic, prepayment and intelligent network).

- Our carrier services provide other operators with leased circuit lines on our network. We provide guaranteed bandwidth of all capacities, PDH, SDH, Ethernet and Lambdas.
- Our traffic management services provide national and international traffic services for the termination and reception of other operators' traffic. In addition, we offer prepayment services and intelligent network services.

Sales and Marketing

The "ONO" Brand

All our telecommunication and television 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, 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).

We conduct extensive advertising to support our brand, including through billboards, the regional and national press, radio television outlets and internet as well as other innovative methods. In addition, we support our local radio and television advertising with sponsorship of regional cultural events, sports teams, trade shows and festivals.

We believe that the ONO brand is a strong marketing tool and a well-recognized brand in our areas of operation. In August 2010 we launched a new and enhanced brand image. We want to communicate to our current and potential customers that ONO is the only telecommunication operator in the Spanish market which is able to offer nationwide high-speed broadband internet at "real" speeds through its proprietary state-of-the-art network, and that this differentiates us from our competitors.

In August 2010, we launched a new visual branding campaign which emphasizes the speed and quality of our modern fiber optic network which we believe differentiates us from our competitors. Starting from the premise that the definition of optical fiber is "transmission via light impulses", we have integrated the concept of "light" in our visual identity and in our marketing materials. To better differentiate ourselves from our competitors many of whom have a recognizable color, we have also introduced purple as our "official" color. This represents the most thorough update in our visual identity since we commenced operations.

Quality and Customer Service

Installation Services

Due to our geographical reach, we rely on approximately 1,000 engineers working for 23 different contractors to perform installations at customer premises. In 2009, they serviced 297,000 new residential customers, 16,000 new SME customers and performed 151,000 service upgrades. The average installation time was 4.27 days.

The installation process is the first contact we have with our customers once they have subscribed for our services and very often it is the only face to face contact between them and ONO. In 2010, we increased our efforts to track and improve the quality delivered by our technicians through our technician quality program. We do this by monitoring complaints and service failures within a short period following installation as well as the results of order closure calls.

In 2009, we implemented a major change in our internal processes by centralizing all our back office operations. This continues to deliver positive results in 2010 and has allowed us not only to increase the efficiency of the process by eliminating redundant resources and, more importantly, to unify the processes and deliver a better and more consistent quality in all our regions.

The implementation of these actions, among others, has led to a significant improvement in all installation quality parameters, as well as an improvement in technician productivity, which has enabled significant reductions in installation costs.

As a benchmark, an official report by the Spanish Ministry of Industry, Tourism and Commerce published in October 2010 lists ONO as the best operator in the Spanish market in all parameters related to provision and installation processes, consistently performing above all other competitors in the areas where we operate.

Billing Process

We have a single corporate billing system. Our billing system, called Infinys Rating and Billing, is widely used in the telecommunications industry and we believe it provides us with sufficient flexibility and functionality to enhance our customer service in the future.

Customer Care Platform

Our customer care platform is composed of ten call centers, three in-house and seven outsourced, of which three are in Spain and four are in Latin America.

In 2009, we launched a number of strategic initiatives to improve customer care operating metrics and customer satisfaction and these initiatives continue delivering positive results in 2010. For example, as part of our “flat resources” project, we have stabilized the number of customer service agents regardless of variations in call volumes from month to month. As a result, average handling time was reduced from 444 seconds to 368 seconds in 2009 and we increased customer satisfaction as measured by the net satisfaction index. In 2009, our calls centers received 8.9 million calls from residential customers, 88.8% of which were answered within 30 seconds, and 537,000 calls from SME customers, 90.4% of which were answered within 10 seconds.

We have optimized our automation strategy which aims to reduce costs and increase customer satisfaction. We have automated calls where agent involvement is not necessary (e.g., when a customer is paying by credit card). During 2009, 14% of customer care calls were attended without human intervention from beginning to end.

We have also recently obtained an ISO 9001:2008 certification for the services of residential and SME clients contact management, complaints management and trouble ticketing management.

Customer Loyalty and Retention

Customer loyalty and retention is a high priority for us given its impact on churn. We regularly analyze our performance and implement a wide range of initiatives to improve customer satisfaction, including:

- carrying out improvements in our network, so that our customers can have the best internet browsing experience in Spain;
- actively incentivizing customers to migrate to higher speeds for minimal extra fees;
- increasing the quality and variety of our television content;
- rolling out a new electronic program guide, enabling our customers to browse and access television content more easily;
- developing new mobile telephony services;

- increasing the range of mobile broadband packages tailored to the needs of each customer;
- implementing a new program for customers who have lost their jobs, with ONO subsidizing some of the customer's services for at least six months, as well as offering, at no additional charge, a premium package for use in job hunting;
- increasing the scope of our loyalty program, which had more than 250,000 members at the end of 2009, as well as the "member-get-member" promotions, which rewards customer loyalty with discounts;
- designing a new proactive process for calling customers and gathering information about possible improvements to our products and services; and
- offering innovative services in response to client demand, including bundled services, ultra high-speed internet, premium pay TV and VoD services, fixed rates to mobile numbers and flat rates for international calls.

We also have a team dedicated to customer retention in our call centers, which helps to resolve customer problems or complaints. This is part of our effort to increase ARPU and prevent service downgrades.

These and other measures, combined with the high quality of our services, improvements of our processes and procedures, the professionalism of our sales team and the resolution of faults in a timely manner, are all reasons why ONO is now perceived as the best telecommunications company in telephony and internet services in Spain according to an October 2010 market survey published by SETSI (*Secretaría de Estado de Telecomunicaciones y para la Sociedad de la Información*), part of the Spanish Ministry of Industry, Tourism and Commerce.

Sales Platform and Marketing

In 2009, we redesigned the mix of our sales channels with the aim of optimizing the process of acquiring residential customers and reducing costs. We currently use the following channels to market our residential products:

- Telephone sales platform: approximately 420 employees respond to calls from customers who are interested in subscribing to our services, and make proactive calls to potential customers to inform them about our products and services.
- Direct sales force: approximately 90 employees across Spain are responsible for direct sales.
- Own stores and franchise stores: ONO has 82 own stores and 54 franchises across Spain. These stores, located on main shopping streets, have been designed to showcase our products and our values to our customers.
- Indirect channels: ONO has over 700 indirect points of sale, including department stores such as El Corte Inglés mobile telephone stores such as the Phone House and other independent points of sale.
- On-line channel: in 2009 we prioritized our on-line channel, which provides low levels of disconnections and cancellations and which is low cost. In the first nine months of 2010, 22.2% of our sales were through the internet, compared to 13.4% in the same period in 2009.

In addition, we also have a small highly-skilled sales force focusing on business customers.

Our Areas of Operation

Our business areas cover approximately 14.8 million homes and approximately 2.9 million businesses. Since the end of 2008, our business is organized around four different regional clusters: Center, East, North and South. The following table sets out certain information relating to our regional clusters in Spain as of September 30, 2010:

Geographical Area		Total Homes[(1)]	Homes Released to Marketing[(2)]	Total Businesses[(3)]
			(in thousands)	
Central	Comunidad de Madrid, Región de Murcia and Castilla la Mancha	3,479	1,696	742
East	Catalunya, Comunitat Valenciana and Illes Balears	5,290	2,519	1,074
North	Cantabria, Castilla y León, Navarra, La Rioja and Aragón	2,370	1,326	370
South	Andalucía and Canary Islands	3,602	1,484	650
Total		**14,741**	**7,025**	**2,836**

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

(2) Cable homes released to marketing as of September 30, 2010.

(3) Total business in each cluster has been obtained from the business central directory published by the National Statistics Institute of Spain (Instituto Nacional de Estadística-INE) as of January 1, 2009.

Central cluster: The Central cluster covers 98,803 square kilometers with a total of 3.5 million homes and 741,919 businesses and a total population of approximately 9.9 million. The Central cluster covers the regions of Madrid, Murcia and Castilla la Mancha. The principal cities in the cluster, all of which we cover, are Madrid, Murcia, Ciudad-Real, Cuenca, Guadalajara, Toledo, Albacete, Talavera de la Reina and the port city of Cartagena.

East cluster: The East cluster covers 60,360 square kilometers with a total of 5.3 million homes and 1,074,294 businesses and a total population of approximately 13.6 million. The East cluster covers the regions of Catalunya, Comunitat Valenciana and Illes Balears. The main cities in the cluster, all of which we cover, are Barcelona, Valencia, Alicante and Castellón de la Plana.

North cluster: The North cluster covers 162,702 square kilometers with a total of 2.4 million homes and 370,327 businesses and a total population of approximately 5.4 million. The North cluster covers the regions of Cantabria, Castilla y León, Navarra, La Rioja and Aragón. This cluster also includes Galicia and Asturias with ULL services. The main cities in the cluster, all of which we cover, are Valladolid, Burgos, León, Zamora, Santander, Pamplona and Logroño.

South cluster: The South cluster covers 95,044 square kilometers with a total of 3.6 million homes and 649,453 businesses and a total population of approximately 10.4 million. The South cluster covers the regions of Andalucía and Canary Islands. The principal cities in the cluster are Sevilla and Córdoba, both of which we cover.

Network Architecture

Access Networks

Our local access 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 capable of supporting broadband internet, cable television services and telephony. All 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.

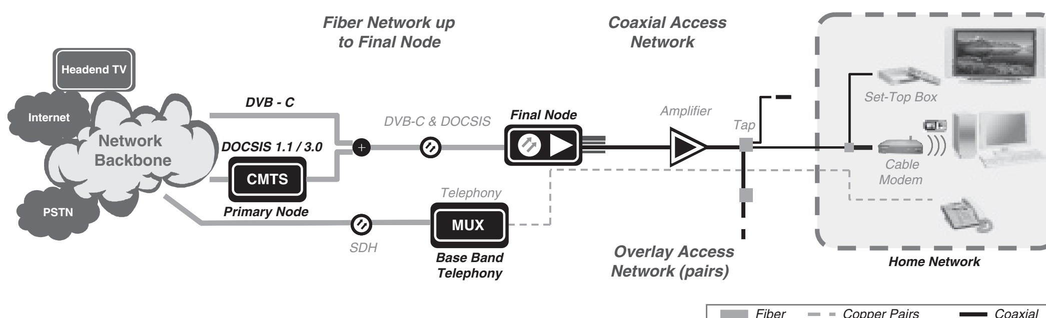
The broadband internet and cable television networks use a hybrid fiber coaxial transmission system (HFC). Our fiber optic ring architecture is used to transport signals from local operations centers to primary nodes, or hub points, serving 20,000 to 60,000 homes in urban areas. The local operations centers generally house a cable television head-end, a digital regional head-end and a telephony and data switch.

The television head-end assembles the cable television signals for transmission to the customers. The primary nodes, which house the cable modem head-end to provide internet service, wrap together both the TV signal and IP signal for broadband internet service multiplexed in the fiber. Primary nodes are connected to secondary nodes along a secondary fiber optic ring network. These secondary nodes are optical distribution points each serving between 2,000 to 6,000 homes, which distribute fiber to the home terminal nodes or final nodes. The home terminal nodes serve around 500 homes.

For telephony service in the most part of the territory, a copper Overlay Access Network is used, in which the final points for distribution to homes and small businesses are cross connect boxes located in secondary nodes, in terminal nodes or in intermediate points, depending on the deployment zone, from which the final connection to a customer's home is made using twisted-pair copper wire.

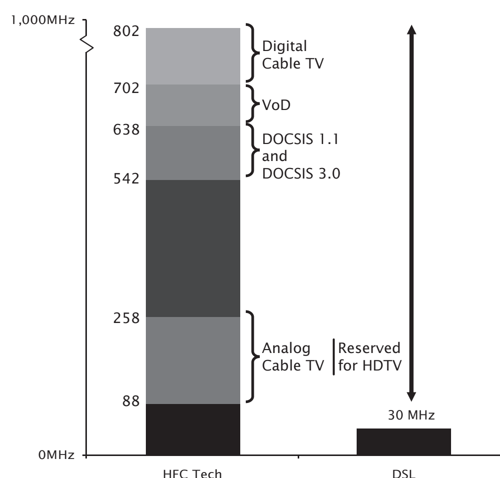
For broadband internet and TV services, both optical signals are transformed, in the final nodes back into electrical format and transmitted onwards to the customer's premises in coaxial cable format. Coaxial cables are used to transport the signals to homes, and amplifiers are used to boost the signal levels. Customer taps are used to serve individual dwellings. These typically serve four to 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 (carrying the broadband and cable television signals) and copper pair cable (carrying telephony services), except for Castilla y León and some municipalities where we use just coaxial cable, with voice over IP technology for the telephony service distribution. Additionally, 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 diagram below provides a high-level, graphical depiction of our local network topology:



Our entire HFC network uses 862 MHz. The forward (downlink) path uses the range from 86 MHz to 862 MHz, and is capable of carrying voice, data, video, and television channels. The segment from 88 to 258 MHz is currently used for analog cable TV, but only in the Canary Islands and in old Tenaria (Logroño and Navarra), as the rest of the country has evolved to digital technology, although depending on ONO areas, digital television is broadcast over the range from 702 to 862 MHz. The range between 638 and 702 MHz is used for VoD service (in some areas the band is also used from 550 to 582 MHz). The band from 542 up to 638 MHz is currently used for broadband internet using Docsis 1.1 and Docsis 3.0. The analog segment (after migration to digital) is reserved for future usage, as HDTV or other services. The network is also designed to support reverse path operations on bandwidths of up to 65 MHz, allowing interactivity between individual homes and the head-ends.

The diagram below shows the possible uses of HFC technology as compared to DSL:



Source: Cableuropa

The digital television system collects all contributions centrally in Madrid (except for local channels which are inserted locally), digitalizes the content and distributes it (via our national backbone network) to the regional head-ends, which act as the insertion points for 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. The programming material is collected at each head-end (not centrally), reconfigured to meet our specifications, and transmitted through fiber optics.

Complementary to TV service there is a VoD infrastructure split between National Headends (storage) and regional headends or primary nodes (storage & playout). We are planning to evolve our TV service to a Next Generation model, over which we could offer advanced services like PVR and HDTV, as well as a new generation of access-agnostic technology services (Over The Top TV, hybrid STBs, etc.).

To complement the main access network, we have deployed ULL in order to complete coverage in those areas where the deployment of our own cable infrastructure was not possible, mainly in parts of Madrid and Barcelona. ONO has DSL access equipment (DSLAMs) in up to 132 Central Offices of Telefónica providing ULL services (voice and internet ADSL), and also has up to 106 regional points of interconnection (POIs) enabled to provide Indirect Access (internet ADSL).

ONO also has an extensive fixed wireless access network, using wireless point to point to bring dedicated high capacity services to enterprise. Finally, we have complemented our enterprise deployment with different Fiber to the Building (“FTTB”) connections mainly in Madrid, Barcelona, Sevilla and Valencia.

There are more than 700 customers connected with SDH equipment and several more with Gigabit Ethernet Access. Both Point to Point and FTTB connections have been deployed on an on-demand basis.

Backbone Networks

Optical and SDH Transmission Layer

ONO’s network is built with around 45,000 kilometers Fiber Optic (“FO”) cables, about 15,000 kilometers of which belong to the national and regional backbone. More specifically, ONO’s FO network can be divided into national links (across the country) and metropolitan areas. The FO network for the national backbone is approximately 80% rented from public utilities (gas, electricity and railway) for a long term and the metropolitan FO network is mainly property of ONO, laid through ONO’s infrastructure.

Our optical backbone already supports 10 Gbps wavelengths all around the national backbone and also in some metropolitan links. This deployment was finished in 2006 with state-of-the-art wave division multiplex equipment.

For TDM services, a Synchronous Digital Hierarchy (“SDH”) network is widely deployed across the country using SDH classical ring topology improved with a Multiplex Section-Shared Protection Ring (“MSSPRING”) usage scheme. ONO also introduced Automatic Switched Transport Network (“ASTN”) technology as the core of the national SDH backbone.

L2/L3 Packet Transport Layer

ONO’s packet transport layer carries services across the country providing connectivity among ONO’s residential customers and between them and the gateways towards international sites or other Spanish SPs. In addition, for business customers, the packet transport layer provides connectivity among their spread locations through state-of-the-art Virtual Private LAN Service (“VPLS”) technology.

Multiprotocol Label Switching (“MPLS”) technology is used in the whole network at aggregation and core parts, allowing for wire speed services. High resilience is achieved based on restoration mechanisms like Fast Re-Route and on the usage of redundant routers with double homing when possible.

The high amount of traffic carried at this layer (more than 186 Gbps carried through the national network to our customers, metropolitan packet traffic is higher) has driven the deployment of high speed interfaces (10 Gbps) lighting the L1- Dense Wavelength Division Multiplexing (“DWDM”) links.

Switching Network

Switching network offers national coverage and it is composed of 68 exchanges (Local, Toll and International) uniformly distributed along the whole national territory, offering in addition to basic voice service, a wide set of value added services such as voice mails, Intelligent Network access (indirect access, premium-rate numbers, virtual private network and local number portability), Voice Portal, etc. Additionally, we have IP telephony services through TWO soft switches, as well as an IP Centrex service.

Mobile Network

ONO, as a full MVNO service provider, has developed a complete switching and service layer to offer mobility services, using Telefónica’s (Movistar’s) mobile (“TME”) access network to provide coverage. In 2008, we focused the mobile offer in 3.5G Internet Access Services (Broadband mobile). In 2009, we launched SIM-only services using GSM and UMTS unlocked mobile handsets. In 2010, we have launched layer 3 VPN services over mobile, and new devices are planned.

Our mobile Network is distributed in two sites (Madrid and Barcelona) and can be summarized as:

- Access Layer: GSM/GPRS (including HSDPA and HSUPA) access from TME network.

- Control (Switching) Layer: Circuit Core infrastructure (HLR, MSC) in both sites. Voice connection to host at MSC level. Packet Core infrastructure (such as SGSN and GGSN) mainly in Madrid.

- Service Layer: Prepaid and IN services (VPN and twin card), IVR, convergent (fixed/mobile) Voice Mail, SMS, MMS, WAP Gateway, OTA platform for terminal configuration, centralized in Madrid.

Fixed Voice Network

In July 2010, we signed an agreement with Huawei, a leading provider of telecommunication equipments, to outsource our voice network. This agreement includes engineering, planning and quality management and we believe that it will allow us to reduce operating expenses while updating our voice network and maintaining the quality of our services.

Principal Suppliers

Equipment Suppliers

We rely on different suppliers depending on the business and product area. The table set forth below presents our main suppliers:

Supplier	Network Equipment	Next Generation TV	Voice Switching	Mobile Network	Digital TV	Set-top Boxes	Data & CM Headend
Cisco	X	X				X	X
Alcatel-Lucent	X		X				
Arris		X			X		
Ericsson	X			X	X		
Nokia-Siemens	X						
Italtel			X				
TiVo		X					
Huawei			X				
NAGRA		X					
NDS					X		
Juniper							X
Motorola					X	X	X

Content Suppliers

We rely on external content suppliers and currently have contracts with, among others, Disney, Mediapro, Sony, Turner, Universal and Viacom. Please see "*Risk Factors—Risks Relating to Our Business—We depend on others to provide premium programming for our cable television services*" for more information.

Properties

We lease and own certain properties for administrative and sales offices, hubs, stores, switches, head-end sites and warehouses. A significant portion of the properties are used for both administrative and technical purposes. Our main network operations centers are located in Madrid and Barcelona and our call centers are located in Valencia, Barcelona, Sevilla, Madrid, Valladolid, Santiago de Chile and Bogotá. We believe that our properties are suitable and adequate for the purposes for which they are intended, however, we are currently streamlining our property portfolio.

Employees

The table below sets forth our average number of total employees for each of the periods indicated:

	Year ended December 31,			Nine months ended
	2007	2008	2009	September 30, 2010
Total employees	4,618	4,594	3,549	3,314

On January 19, 2009, the Spanish Ministry of Labor approved an agreement between the ONO Group and the trade unions for the execution of a headcount reduction plan. The plan was carried out in April 2009 and a total of 845 employees were made redundant.

During the year ended December 31, 2009, we had an average of 3,549 fixed and temporary full time equivalent employees, a decrease of 1,045 as compared to the 2008 average. Most of our employees are covered by the cable industry collective bargaining agreement.

Environmental Matters

We are subject to a variety of laws and regulations relating to land use and environmental protection in connection with our ownership of real property and other operations, including our use of fuels, coolants and batteries. 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 standardized procedures to manage environmental risks.

Legal Proceedings

We are engaged in litigation arising in the ordinary course of its business. We do not believe that the adverse determination of any pending litigation against us could have a material adverse effect on our business or financial condition.

Cableuropa's indirect parent, GCO, is currently engaged in litigation initiated by one of GCO's shareholders which may potentially have a negative impact on us. See "*Risk Factors—Risks Relating to Our Financial Profile—An adverse outcome of the litigation initiated against GCO by one of GCO's shareholders may have a negative impact on us*".

Other Legal and Regulatory Matters

The following legal and regulatory matters may have an impact on our business and financial condition:

- To date we have not been required by the CMT to contribute to the financing of universal service in Spain. The CMT has required other competitors, including Orange and Vodafone, to contribute to such costs in previous years and in certain cases these competitors are appealing the CMT's decision. We believe that we may be required to contribute to universal service costs for future years and potentially for past years if such appeals are successful. In December 2010, the first judgment in a case filed by Vodafone on cost distribution for the 2003-2005 period was published and it upheld the CMT criteria. Applying the holding of the court to our circumstances, we would not be required to contribute to the financing of universal service in Spain for the 2003-2005 period. However, this judgment could be appealed before the Spanish Supreme Court and other proceedings related to this matter are still pending. As a result, we have provisions in our financial accounts for these contingencies which we believe are adequate. For more information on universal service, see "*Regulation—Regulation of Electronic Communication Services—Universal Service Public Service obligations and Other Obligations of Public Character*."

- On December 1, 2009, our competitor Sogecable was ordered to pay us compensation in the amount of €44 million plus interest for a contractual breach of the channel distribution agreements for Gran Via and Cablesport. As at September 30, 2010, we have collected this amount in full; however, Sogecable is appealing the judgment against it.

- On March 9, 2010, Sogecable was ordered by a Spanish first instance court to pay compensation of €51.7 million plus interest to ONO for abuse of dominant position in relation with football content contracts for the 2003/2004 to 2008/2009 seasons. As of September 30, 2010, we have collected part of this amount and have agreed with Sogecable on a schedule for the payment of the remaining amount; however, Sogecable is appealing the judgment against it.

- Pursuant to the RTVE Financing Law, we are required on a yearly basis, to contribute 1.5% of our television revenues and other audiovisual communication revenues (since September 2009) and 0.9% of our telecommunication revenues (since January 2010) to subsidize the sustainability of the Spanish public broadcasting entity, RTVE. However, the RTVE Financing Law has been the subject of a number of legal and regulatory proceedings. In particular, in September 2010 the EU Commission announced its decision to request Spain to abolish the 0.9% contribution as it considered such contribution to be incompatible with EU telecommunications rules, which require specific charges on telecommunications operators to be specifically and directly related to covering the costs of regulating the telecommunications sector. The requests took the form of "reasoned opinions" under EU infringement procedures. According to EU law, Spain has to inform the Commission of measures taken to comply with EU telecommunications rules. If it fails to do so, or the reply is not deemed satisfactory, the Commission may refer the case to the EU Court of Justice. Meanwhile, operators, including Cableuropa, are challenging certain aspects of the 0.9% and 1.5% contribution requirements before the Spanish Supreme Court. Furthermore, Spain's National Competition Commission has issued a non-binding negative opinion on the RTVE Financing Law, primarily relating to its impact on competition matters. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations of ONOMidco—Factors Affecting Our Business During the Periods Under Review*" for additional information.

- Following the entry into force of the General Law on Audiovisual Communication on May 1, 2010, we became subject to a requirement to invest, under certain circumstances, 5% of our annual revenues relating to television and audiovisual services in the production of new original content. Under the law, 60% of this amount must be invested in Spanish-language productions. See "*Regulation—Regulation of Audiovisual Communication Services—General Law on Audiovisual Communication—Obligations*". As of September 30, 2010, our results of operations do not reflect the cost of complying with these provisions. However, we have now begun complying with this new legal requirement and our results in future periods will be affected accordingly.

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of certain provisions of the documents listed below which govern our principal indebtedness and does not purport to be complete.

Senior Facility

On May 13, 2010, we amended our Senior Facility (i) to create additional term loan tranches to the Senior Facility that will act as "forward-start" facilities (such additional term loan tranches will mature on June 30, 2013 and will be drawn to partially extend maturities of tranches A, B and I of the Senior Facility falling due between June 30, 2010 and December 31, 2012); (ii) to create an additional €64 million revolving tranche that will mature on July 31, 2012; (iii) to facilitate future debt refinancing by permitting the creation in the future of additional term loan tranches under which the proceeds from debt capital markets instruments raised by a special purpose vehicle (such as the Senior Secured Notes offered as part of the October 2010 Refinancing) (please see *"—Senior Facility—New Notes Tranches"*) or new bank debt will be on-lent to the Company to partly refinance certain of the existing Bank Tranches under the Senior Facility; (iv) to reset financial covenants; (v) to add PIK interest if certain conditions relating to the refinancing of the existing Bank Tranches are not met; and (vi) to amend certain definitions. After this amendment, the maximum available amount under the Senior Facility decreased from €3,600 million to €3,555 million. The purpose of the amendment was to provide us with additional flexibility to meet our principal amortization obligations and permit management to focus on continuing to enhance operations and increase cashflow. The amended agreement became effective as of May 21, 2010, once all conditions precedent were satisfied.

On October 22, 2010, in connection with the issuance of the Senior Secured Notes, we further amended our Senior Facility to incorporate a new Senior Secured Notes tranche (the "Senior Secured Notes Tranche") in the amount of €700 million. The gross proceeds of the Senior Secured Notes were on-lent by Nara Cable Funding to Cableuropa pursuant to the Senior Secured Notes Tranche and were used to partially prepay drawn amounts under the existing tranches A, B, I, E and I2. The Senior Secured Notes Tranche bears interest at 8.875% and will mature on December 31, 2013, at which time it will be automatically extended to December 1, 2018 through the Forward Start Agreement (as described under "*—Senior Secured Notes of Nara Cable Funding—Forward Start Agreement*").

Under the Senior Facility, borrowing availability is subject to a number of conditions, including certain representations and warranties being correct and no early termination event having occurred and be continuing. No assurance can be given that such borrowing conditions will be fulfilled or that funds under the facility agreement will be made available to us. As of September 30, 2010, we had an outstanding balance of €3,266 million drawn under the Senior Facility (excluding the bank guarantees in respect of Facility S) after the repayment of €36 million on December 31, 2009 and €28 million on June 30, 2010. As of September 30, 2010, we had €170 million and €64 million available under tranches C and F, respectively, of our Revolving Credit Facilities).

Cableuropa's obligations under the Senior Facility (including the Senior Secured Notes Tranche) are senior to those under the Notes Proceeds Loans and the Notes Guarantees.

The Facilities: There are ten separate tranches under the Senior Facility:

Tranche 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, to 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, and fund the redemption in full of the 2011 Notes and 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.

Tranche B is a term loan facility in a maximum aggregate amount of €800 million, and is subdivided into four subtranches:

- Subtranche B1 has a maximum aggregate amount of €200 million, which was made available to partially fund the Auna acquisition;
- 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;

- Subtranche B3 has a maximum aggregate amount of €100 million, which was made available to partially fund the redemption of the Floating Rate Notes; and
- Subtranche B4 has a maximum aggregate amount of €150 million, which was made available to partially fund the deferred Auna acquisition price and for our general corporate purposes.

Tranche C is a revolving credit facility in a maximum aggregate amount of €600 million, which can be used to fund the payment of the deferred Auna acquisition price to partially refinance or repay the Fond-ICO Participative Loan and for our general corporate purposes.

Tranche D is a term loan facility in a maximum aggregate amount of €700 million, and is divided into two subtranches:

- Subtranche D1 has a maximum aggregate amount of €550 million, which was made available to be used to partially refinance our existing indebtedness; and
- Subtranche D2 has a maximum aggregate amount of €150 million, which was made available to refinance the Subordinated Facility, to partially Refinance or repay the Loan upon its maturity, to fund the payment of interest, premium fees and other costs associated with the refinancing and the transaction and for general corporate purposes.

Tranche E is a term loan facility in a maximum amount of €1,424 million. It operates as a forward-start facility and is intended to refinance the repayment of scheduled amortizations of Tranche A and Tranche B corresponding to Tranche E Lenders, in the proportion that they hold in such Facilities (and pro rata among them).

Tranche F is a revolving credit facility in a maximum amount of €64 million to refinance the Bilateral Facilities and, thereafter, for our general corporate purposes.

Tranche I is a term loan facility in a maximum aggregate amount of €400 million, which was made available to partially refinance our existing indebtedness.

Tranche I2 is a term loan facility in a maximum amount of €180 million, which operates as a forward-start facility and is intended to partially refinance the repayment of scheduled amortizations of Tranche I.

The Senior Secured Notes Tranche is a term loan facility with a maximum amount of €700 million. This tranche was incorporated into the Senior Facility from the proceeds from the issuance by Nara Cable Funding of €700 million Senior Secured Notes and borrowings under this tranche were used to partially prepay drawn amounts under tranches A, B, I, E and I2.

Tranche 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 Senior Facility may now not exceed €3,520 million plus the maximum available amount in the Facility S of bank guarantees. Nevertheless, the total amount outstanding will be amended from time to time in order to include the amounts made available to us through new tranches or by a bilateral lender that desires to be incorporated into the Senior Facility as a lender of Tranche F.

Maturity: Tranche A and Tranche B mature on December 31, 2012; Tranche C matures on June 30, 2013; Tranche D matures on December 31, 2013; Tranche E matures on June 30, 2013; Tranche F matures on July 31, 2012; Tranche I matures on June 30, 2013; Tranche I2 matures on June 30, 2013; the Senior Secured Notes Tranche matures on December 31, 2013 (but will be extended through the Forward Start Agreement to December 1, 2018); and Tranche S matures on December 31, 2013.

Interest: Tranches A, B, C, D, E, F, I and I2 bear interest at a rate equal to the aggregate of a margin and EURIBOR.

In respect of Tranches A, B, C and I, margin is adjusted quarterly, as the case may be, pursuant to the following grid:

Total Debt to LTM EBITDA Ratio	Margin
Above 5.00	1.75% p.a.
Above 4.50 but not exceeding 5.00	1.60% p.a.
Above 4.00 but not exceeding 4.50	1.45% p.a.
Above 3.00 but not exceeding 4.00	1.30% p.a.
Not exceeding 3.00	1.15% p.a.

Margin for Tranche D is adjusted quarterly, as the case may be, pursuant to the following grid:

Total Debt to LTM EBITDA Ratio	Margin
Above 4.50	2.25% p.a.
Not exceeding 4.50	2.00% p.a.

In respect of Tranches E and I2, margin is adjusted quarterly, as the case may be, pursuant to the following grid:

Total Debt to LTM EBITDA Ratio	Margin
Above 5.00	3.00% p.a.
Above 4.50 but not exceeding 5.00	2.85% p.a.
Above 4.00 but not exceeding 4.50	2.70% p.a.
Above 3.00 but not exceeding 4.00	2.55% p.a.
Not exceeding 3.00	2.40% p.a.

The margin for Tranche F is 2.95%.

The Senior Secured Notes Tranche bears interest at a fixed rate of 8.875%.

Bank guarantees under Tranche S bear interest at a rate equal to the margin applicable to Tranche 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 uncancelled portion of the relevant facility.

Repayment: Advances under Tranche C and Tranche F 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 Tranches D, E and I2 must be repaid in full on its final maturity date. The Senior Secured Notes Tranche must be repaid in full on its final maturity date; however, notwithstanding the foregoing, on June 30, 2013, the Senior Secured Notes Tranche will be extended in full through the Forward Start Agreement entered into with Nara Cable Funding and will therefore mature on December 1, 2018. Advances under Tranche A and Tranche B must be repaid in accordance with an agreed repayment schedule as set forth below (after giving effect to the forward start facilities created under Tranche E):

Date	Percentage of Facility A to be repaid
December 31, 2011	4.31%
June 30, 2012	7.49%
December 31, 2012	7.49%
June 30, 2013	80.72%

Advances under Tranche I must be repaid in accordance with an agreed repayment schedule as set forth below (after giving effect to the forward start facilities created under Tranche I2):

Date	Percentage of Facility I to be repaid
December 31, 2011	1.10%
June 30, 2012	1.27%
December 31, 2012	2.54%
June 30, 2013	95.09%

Financial Covenants: The financial covenants under the Senior Facility require, among other things: maintenance of a minimum total interest coverage ratio, maintenance of a maximum consolidated leverage ratio (on a last twelve months basis), maintenance of a maximum senior leverage ratio (on a last twelve months basis), and maintenance of a maximum capital expenditure and debt service cover ratio.

The tables below set forth the minimum interest coverage ratio, the maximum consolidated leverage ratio, the maximum senior leverage ratio and the maximum capital expenditure under the Senior Facility:

Interest cover ratio:

Date	Ratio
December 31, 2009	2.42x
March 30, 2010	2.40x
June 30, 2010	2.32x
September 30, 2010	2.36x
December 31, 2010	2.48x
March 30, 2011	2.49x
June 30, 2011	2.54x
September 30, 2011	2.51x
December 31, 2011	2.52x
March 30, 2012	2.51x
June 30, 2012	2.52x
September 30, 2012	2.54x
December 31, 2012	2.57x
March 30, 2013	2.57x
June 30, 2013	2.58x
September 30, 2013	2.61x

Total debt/Consolidated LTM EBITDA:

Date	Ratio
December 31, 2009	6.40x
March 30, 2010	6.40x
June 30, 2010	6.40x
September 30, 2010	6.40x
December 31, 2010	6.25x
March 30, 2011	6.10x
June 30, 2011	6.00x
September 30, 2011	5.90x
December 31, 2011	5.80x
March 30, 2012	5.60x
June 30, 2012	5.40x
September 30, 2012	5.20x
December 31, 2012	5.00x
March 30, 2013	4.90x
June 30, 2013	4.80x
September 30, 2013	4.70x

Senior debt/Consolidated LTM EBITDA:

Date	Ratio
December 31, 2009	5.70x
March 30, 2010	5.70x
June 30, 2010	5.70x
September 30, 2010	5.60x
December 31, 2010	5.50x
March 30, 2011	5.40x
June 30, 2011	5.25x
September 30, 2011	5.20x
December 31, 2011	5.10x
March 30, 2012	4.90x
June 30, 2012	4.70x
September 30, 2012	4.50x
December 31, 2012	4.30x
March 30, 2013	4.20x
June 30, 2013	4.10x
September 30, 2013	4.00x

Maximum Capex (euro in millions):

Date	Limit
December 31, 2009	257
March 30, 2010	85
June 30, 2010	165
September 30, 2010	230
December 31, 2010	290
March 30, 2011	85
June 30, 2011	165
September 30, 2011	230
December 31, 2011	290
March 30, 2012	85
June 30, 2012	165
September 30, 2012	230
December 31, 2012	285
March 30, 2013	85
June 30, 2013	165
September 30, 2013	230

The Senior Facility contains a mechanism to adjust the minimum interest cover ratio to reflect the interest rate payable on any future New Notes Tranche so as to maintain the equivalent level of headroom in each period.

Guarantees: Cableuropa, as borrower, is currently the only guarantor and has jointly and severally guaranteed all amounts owed under the Senior Facility on a senior basis.

Material Subsidiaries: The Senior Facility also provides that Cableuropa will cause any new "Material Subsidiaries" (as defined in the Senior Facility) to become guarantors under the Senior Facility with similar terms to the existing guarantors. Subsequently, these companies may request the release of the relevant guarantees should they cease to be "Material Subsidiaries".

Security: The Senior Facility is secured by first-ranking pledges over (i) all the share capital of Cableuropa; (ii) the credit rights under certain profit participating loans granted by GCO in favor of Cableuropa which will be capitalized pursuant to the Capitalization Transactions; (iii) the credit rights arising under insurance policies owned by Cableuropa; (iv) the credit rights arising under the insurance account and the asset transfer account owned by Cableuropa; (v) the credit rights arising under the loans by virtue of which ONO Finance plc and ONO Finance II plc have advanced to Cableuropa the proceeds of the Existing Subordinated Notes; and (vi) the credit rights arising in favor of Cableuropa under the sale and purchase agreement in connection with the Auna acquisition. In addition, the Notes Proceeds Loans will be pledged on a first ranking basis in favor of the Senior Facility. The Senior Facility will also be secured by a first-ranking pledge over the share capital of any subsidiary that becomes a "Material Subsidiary" (as defined in the Senior Facility) during the time that any amounts are outstanding under the Senior Facility. In addition, Cableuropa has also agreed to grant a first ranking chattel mortgage over the telecommunications network owned by it, at the request of the senior lenders upon the occurrence of an early termination event under the terms of the Senior Facility that is not remedied or otherwise waived by the senior lenders.

Release Event: Under the terms of the Senior Facility, upon the occurrence of a "Release Event" (i) certain positive and negative covenants will cease to apply (basically eliminating restrictions to prepay subordinated debt, to upstream funds to shareholders and to implement asset sales); (ii) the mandatory prepayment obligations in connection with insurance proceeds and asset sales will cease to apply; (iii) all the security granted in connection with the Senior Facility will be released except for the pledge over all the share capital of Cableuropa and the pledges of credit rights arising under shareholder loans (excluding those which proceeds have been obtained from subordinated debt); and (iv) Cableuropa will not be obliged to deliver a certificate, verified by the auditors, setting forth the calculation of the Consolidated Excess Cash Flow.

For these purposes, "Release Event" means the occurrence of one of the following: (a) Cableuropa presents to the Senior Agent of the senior lenders two consecutive certificates of compliance with financial covenants stating that the result of the Total Debt to Consolidated Annualized EBITDA covenant has been less than 3.0x and the auditors certify compliance with such financial covenants for both consecutive quarters; or (b) Cableuropa, ONO Finance or ONO Finance II or any issuer of future high yield notes (and to the extent that issues are only guaranteed by the group or by a holding company, provided that in this case such holding company is only guaranteed or counter-guaranteed by ONO Midco or the group) achieve a credit rating provided by one of the following two agencies which is equal to or higher than: (i) BBB- from Standard & Poor's Rating Group; or (ii) Baa3 from Moody's Investor Service Inc.

A Release Event shall have no effect as from the date on which the circumstance triggering its occurrence (i.e., either of the circumstances mentioned in (a) and (b) above) ceases to occur until the date on which any circumstance triggers it again.

Other: The 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 to, 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 expenditures; covenants to, 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.

New Notes Tranches Under the Senior Facility

Pursuant to the amendment of the Senior Facility made in May 2010, Cableuropa is entitled to incorporate into the Senior Facility additional notes tranches similar to the Senior Secured Notes Tranche (a "New Notes Tranche"). The issuers of the debt capital market instrument underlying such additional New Notes Tranches will lend the gross proceeds of such debt to Cableuropa for the purpose of prepaying the existing Bank Tranches and will become lenders under the Senior Facility with the rights and restrictions described below. Furthermore, Cableuropa is entitled to incorporate into the Senior Facility new tranches consisting of term loans made available to Cableuropa by any banks or institutions active in the bank and institutional loan markets ("New Bank Tranches") for the purposes of prepaying the existing Bank Tranches. The incorporation of any New Notes Tranches into the Senior Facility will be made through an amendment agreement to the Senior Facility which will have attached an amended and restated facility to take account of the changes required to incorporate the New Notes Tranche.

The following provides an overview of the New Notes Tranche mechanism. The lender under any New Notes Tranche will be the issuer of the underlying debt instrument. The maturity of any New Notes Tranche will be December 31, 2013 (which is the final maturity date of the Senior Facility) although the issuer will execute with Cableuropa a forward start agreement whereby they will agree to extend the maturity of the New Notes Tranche to a date equal to the maturity of the underlying debt instruments either under (i) the same terms contained in the Senior Facility; (ii) the terms of any new senior facility that may extend or refinance the existing Senior Facility, *provided* that, the terms of any New Notes Tranche are not altered in any material manner and *provided further* that any New Notes Tranche continues to rank *pari passu* in payment and security with any other lender under such new senior facility; or (iii) the terms of a bilateral agreement or indenture between the issuer or the trustee and Cableuropa on substantially the same terms as the indenture governing the underlying debt, *provided* that Cableuropa's obligations thereunder continue to rank pari passu in payment and security with other senior debt. Interest will be fixed and will match the interest payable under the underlying debt instrument (plus a small margin to account for any required profit to be retained at the issuer level for tax or legal reasons). Interest periods will match those of the notes.

Cableuropa will be required to make a voluntary prepayment under any New Notes Tranche on the same terms (including payment of the same applicable premium) as those contained in the indenture governing the underlying debt in respect of any optional redemption of any underlying debt. Cableuropa will be entitled to make prepayments in case of a change of control or asset sale (in each case, as defined in the Senior Facility). However, because the definition of change of control and asset sale in the Senior Facility may not match the equivalent definitions in any indenture governing the underlying debt instrument, there is a risk that payments under any New Notes Tranche may not be made to the issuer in all circumstances where the issuer has payment obligations under the governing indenture. The issuer, as lender of any New Notes Tranche, will waive its right to receive certain private non-public information that the other lenders under the Senior Facility will normally receive.

Senior Secured Notes

On October 22, 2010, Nara Cable Funding, an independent, stand-alone special purpose vehicle, completed the offering of €700,000,000 8.875% Senior Secured Notes due 2018 (the "Senior Secured Notes") under an indenture (the "Senior Secured Notes Indenture") between Nara Cable Funding and The Bank of New York Mellon, as trustee. The Senior Secured Notes are not direct obligations of Cableuropa; however, the Senior Secured Notes benefit indirectly from Cableuropa's obligations under the Senior Secured Notes Tranche of the Senior Facility which is held by Nara Cable Funding and which is pledged for the benefit of holders of the Senior Secured Notes.

Covenant Agreement. Contemporaneously with the signing of the Senior Secured Notes Indenture, Cableuropa entered into a covenant agreement (the "Covenant Agreement") whereby it agreed to comply with certain covenants in the Senior Secured Notes Indenture.

Senior Secured Notes Tranche. Pursuant to the offering of the Senior Secured Notes, Nara Cable Funding loaned the gross proceeds from the sale of the Senior Secured Notes to Cableuropa as a term loan (the "Senior Secured Notes Tranche Loan") under the Senior Secured Notes Tranche in an aggregate principal amount equal to the aggregate principal amount of the Senior Secured Notes offered thereby. The obligations of Cableuropa under the Senior Secured Notes Tranche were guaranteed (the "Senior Secured Notes Tranche Guarantees") by all of the guarantors (currently Cableuropa, which is also the borrower under the Senior Secured Notes Tranche is the only obligor) under the Senior Facility and secured by a

pledge of Nara Cable Funding's credit rights in the Senior Secured Notes Tranche (the "Senior Secured Notes Tranche Pledge") and certain other agreements, as well as a pledge over the share capital of the Nara Cable Funding and a charge over certain of its bank accounts.

Forward Start Agreement. In connection with the offering of the Senior Secured Notes, Nara Cable Funding and Cableuropa entered into a forward start agreement (the "Forward Start Agreement") which complies with the requirements for the forward start facility specified under "*—New Notes Tranches Under the Senior Facility*" above and extends the maturity of the Senior Secured Notes Tranche to December 1, 2018 (i.e., the maturity date of the Senior Secured Notes).

Terms of the Senior Secured Notes. Nara Cable Funding will pay interest on the Senior Secured Notes on June 1 and December 1 each year, beginning on June 1, 2011 payable in arrears. The Senior Secured Notes will mature on December 1, 2018. Prior to December 1, 2013 Nara Cable Funding may redeem all or part of the Senior Secured Notes at a redemption price of 100% of the principal amount of such Senior Secured Notes plus accrued and unpaid interest and a "make whole" premium. Nara Cable Funding may redeem some or all of the Senior Secured Notes at any time on or after December 1, 2013 at a set redemption price which reduces with the passage of time until the redemption price is 100% of the principal amount of the Senior Secured Notes on December 1, 2016, plus accrued and unpaid interest. Prior to December 1, 2013 Nara Cable Funding may redeem up to 35% of the Senior Secured Notes with the net proceeds of certain public equity offerings by us. Holders of the Senior Secured Notes may require Nara Cable Funding to repurchase their Senior Secured Notes upon a change of control, if we sell certain of our assets or under certain other circumstances.

The Senior Secured Notes are subject to certain customary high-yield covenants contained in the Senior Secured Notes Indenture which apply indirectly to Cableuropa through the terms of the Covenant Agreement.

The Senior Secured Notes are senior obligations of Nara Cable Funding and rank pari passu in right of payment with all its existing and future senior indebtedness that is not subordinated to the Senior Secured Notes. The Senior Secured Notes are admitted for trading on the Euro MTF market and listed on the Official List of the Luxembourg Stock Exchange.

Intercreditor Agreement

The Intercreditor Agreement is attached to this offering memorandum as Annex A. The following is a summary of the terms of the Intercreditor Agreement.

As a consequence of ONOMidco's incorporation and of ONOMidco's accession to the Intercreditor Agreement as an Obligor, the trustee under the indentures for the Existing Subordinated Notes acceded to the intercreditor agreement dated October 27, 2005 (the "Intercreditor Agreement"), between, among others, Cableuropa, certain lenders under the Senior Facility, the Subordinated Facility (which has already been repaid) and the Fond-ICO Participative Loan, Banco Español de Crédito, S.A. (now replaced by Sociéte Générale), as agent for the lenders under the 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. (now replaced by Sociéte Générale), as security agent and intercreditor agent (the "Intercreditor Agent"). The Intercreditor Agreement establishes the relative rights of, among others, the holders of the Subordinated Notes, the creditors under the Fond-ICO Participative Loan and the creditors of the Senior Facility. On the Issue Date, the Trustee and the Issuer will accede to the Intercreditor Agreement and the Notes will be treated as "Subordinated Notes" for purposes thereof. The Existing Subordinated Notes and the Fond-ICO Participative Loan will be redeemed or repaid with the gross proceeds of the offering of the Notes and available cash, see "*Use of Proceeds*".

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 plc, ONOMidco 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 Senior Facility) pursuant to the Senior Facility;
- Second, in payment of the following, on a *pari passu* basis: (a) debt owed to the lenders under the Senior Facility (together with certain hedging debt, the "Senior Debt"), (b) any amounts owed to the trustee of any existing subordinated notes, (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 Subordinated Notes;

- Fifth, in payment of debt owed to lenders under the Fond-ICO Participative Loan (together with any subordinated notes, the "Subordinated Debt"); and

- Sixth, in payment of the surplus to the Obligors.

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 Obligors 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, the 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.

Payment Blockage

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 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 by ONOMidco

ONOMidco fully and unconditionally guarantees, on an unsecured, senior, joint and several basis, the full payment of any amounts due from the Obligors under any Subordinated Debt. ONOMidco also agrees 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 ONOMidco, and that ONOMidco shall remain bound by the Intercreditor Agreement notwithstanding any such extension or renewal.

Release of Subordinated Guarantees and Accession of ONOMidco as Borrower

Each Obligor (other than ONOMidco) which is a guarantor under any Subordinated Debt (a "Subordinated Guarantor") will be automatically and unconditionally released from all obligations under its guarantee thereunder (a "Subordinated Guarantee"), and such Subordinated Guarantee will be terminated and was discharged and is 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:

- The proceeds of such Enforcement Sale are in cash (or substantially all in cash) and are applied in accordance with the Intercreditor Agreement;

- 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

- 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.

After the release of its Subordinated Guarantees 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 Notes offered hereby and the guarantees thereunder and the Notes Proceeds Loans) will be automatically and unconditionally assumed by ONOMidco 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.

The Fond-ICO 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, a fund managed by Axis Participaciones Empresariales, S.G.E.C.R., S.A.U, as lender, to provide up to €20 million in financing. The Participative Loan was subsequently novated on June 20, 2007. On May 13, 2010 the Fond-ICO Participative Loan was novated to reflect the terms and conditions agreed with the senior lenders under the Senior Facility. As of September 30, 2010, we had a balance of €10 million drawn under the Fond-ICO Participative Loan.

The Fond-ICO Participative Loan is deeply subordinated debt by operation of law and with a repayment date of May 15, 2011 which may be extended until May 15, 2014 at the option of Cableuropa. Cableuropa intends to repay the Fond-ICO Participative Loan with a portion of the proceeds from the issuance of the Notes. See "*Use of Proceeds*".

Equity Value Certificates

In connection with the issuance of the 2011 Notes in 2001, ONO Finance I issued Equity Value Certificates ("EVCs"), comprising of 200,000 dollar- and 150,000 euro-denominated EVCs which originally evidenced the right to receive the cash value of 48.89512850 shares of Cableuropa in dollars, and of 45.98831311 shares of Cableuropa in euro, respectively, assuming €1.00 par value shares and subject to adjustment in certain circumstances. As of September 30, 2010, the EVCs were carried on our balance sheet at €14.6 million.

The EVCs mature on February 15, 2011 and are due to be paid on March 15, 2011 although prepayment may be triggered under certain circumstances such as an initial public offering of the shares of Cableuropa. The EVCs are guaranteed by Cableuropa on a senior subordinated basis. In the July 2008 Senior Facility amendment process, GCO, our ultimate parent company, agreed to provide Cableuropa with the funds to retire the EVCs at maturity.

In September-October 2006, GCO conducted a cash tender offer for all of the EVCs. Prior to the launch of the tender offer, GCO owned approximately 64% of all outstanding EVCs and, following the tender offer, GCO owned approximately 85% of the EVCs issued. In 2007, this amount increased to approximately 87%.

In addition, on October 2, 2006, a reverse merger (the "Reverse Merger") occurred between the former Cableuropa, S.A.U. and Esto es ONO, S.A.U. (the former Auna Telecomunicaciones, S.A.U.), whereby Esto es ONO, S.A.U. was the resulting company. Esto es ONO, S.A.U. later changed its name to Cableuropa, S.A.U. As a result of the Reverse Merger and pursuant to the EVC Agreement, the various Equity Value Fractions had to be adjusted in order to ensure that the holder of each EVC shall be entitled to receive the value of ordinary shares upon payment of such EVC that such holder would have been entitled to receive had such EVC been payable immediately prior to the Reverse Merger.

As a consequence, the Equity Value Fractions for all Equity Value Certificates issued were adjusted as follows:

	Equity Value Fraction
2001 Dollar EVCs	1.96933774
2001 Euro EVCs	1.85226061

ONO MIDCO, S.A.U. AND SUBSIDIARIES (MIDCO GROUP)

CONSOLIDATED INCOME STATEMENT
FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009
(Thousands of Euros)

	Note	Nine month periods ended 30 September	
		2010(*)	**2009(*)**
Net Revenue	8	1,103,119	1,140,303
Cost of sales		(233,290)	(259,743)
Work carried out by the group for its assets		49,322	45,176
GROSS MARGIN		**919,151**	**925,736**
Staff Costs		(122,507)	(128,643)
Other operating expenses		(259,261)	(254,040)
Depreciation and amortisation	3	(289,325)	(293,013)
Impairments and gains or losses on assets disposals		1,211	(1,603)
CONSOLIDATED OPERATING PROFIT		**249,269**	**248,437**
Finance income		1,433	3,178
Interest expense		(158,494)	(174,737)
Other financial charges		(13,378)	(15,262)
Impairment and results from financial instruments disposals		—	3,475
CONSOLIDATED NET FINANCIAL LOSS		**(170,439)**	**(183,346)**
CONSOLIDATED PROFIT BEFORE INCOME TAX		**78,830**	**65,091**
Income tax		**(45,015)**	**(22,425)**
Result attributable to minority interests		**(380)**	**(843)**
PROFIT FOR THE PERIOD		**33,435**	**41,823**

(*) Unaudited

The above consolidated income statement should be read in conjunction with the accompanying notes.

ONO MIDCO, S.A.U. AND SUBSIDIARIES (MIDCO GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009
(Thousands of Euros)

A) CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009

(Thousands of Euros)

	30 September 2010(*)	30 September 2009(*)
A) Profit for the period	**33,435**	**41,823**
Income and expenses recognised directly in equity		
Cash-flow hedges	49,345	(3,596)
Tax effect	(14,804)	1,079
B) Total income and expenses recognised directly in equity	**34,541**	**(2,517)**
Transfers to the consolidated income statement		
Grants, donations and legacies received	(528)	(528)
Tax effect	159	159
C) Total transfers to the consolidated income statement	**(369)**	**(369)**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSES FOR THE PERIOD	**67,607**	**38,937**

(*) Unaudited

The above consolidated statement of recognised income and expenses should be read in conjunction with the accompanying notes.

ONO MIDCO, S.A.U. AND SUBSIDIARIES (MIDCO GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY—(Continued)
FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009
(Thousands of Euros)

B) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009

(Thousands of Euros)

	Capital	Share Premium	Reserves	Other shareholder's contributions	Prior year losses	Result for the nine months	Changes in value adjustments	Grants, donations and legacies received	Minority interests	Total
BALANCE AT 1 JANUARY 2009	**262,902**	**23,852**	**125,795**	**955,000**	**(221,484)**	**(22,492)**	**(48,868)**	**1,976**	**7,150**	**1,083,831**
Total recognised income and expense	—	—	—	—	—	41,823	(2,517)	(369)	—	38,937
Other variations in consolidated equity	—	—	—	—	(22,492)	22,492	—	—	—	—
Transactions with equity-holders	—	—	—	—	—	—	—	—	—	—
—Shareholders contributions (note 6)	—	—	—	7,718	—	—	—	—	—	7,718
—Minority interests	—	—	—	—	—	—	—	—	843	843
BALANCE AT 30 SEPTEMBER 2009(*)	**262,902**	**23,852**	**125,795**	**962,718**	**(243,976)**	**41,823**	**(51,385)**	**1,607**	**7,993**	**1,131,329**
BALANCE AT 1 JANUARY 2010	**131,464**	**—**	**125,795**	**962,718**	**(88,686)**	**56,759**	**(38,336)**	**1,166**	**3,450**	**1,154,330**
Total recognised income and expense	—	—	—	—	—	33,435	34,541	(369)	—	67,607
Other variations in consolidated equity	—	—	—	—	56,759	(56,759)	—	—	—	—
Transactions with equity-holders										
—Shareholders contributions (note 6)	—	—	—	125,000	—	—	—	—	—	125,000
—Minority interests	—	—	—	—	—	—	—	—	380	380
BALANCE AT 30 SEPTEMBER 2010(*)	**131,464**	**—**	**125,795**	**1,087,718**	**(31,927)**	**33,435**	**(3,795)**	**797**	**3,830**	**1,347,317**

(*) Unaudited

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

ONO MIDCO, S.A.U. AND SUBSIDIARIES (MIDCO GROUP)

CONSOLIDATED STATEMENT OF CASH-FLOWS
FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2010 AND 2009
(Thousands of Euros)

	Nine month periods ended 30 September	
	2010(*)	**2009(*)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Result for the nine month period before tax	**78,830**	**65,091**
Adjustments to the result for the year	**458,553**	**478,323**
Fixed Asset Depreciation	289,325	293,013
Fixed Assets Disposals	(1,211)	1,603
Finance Income	(1,433)	(6,653)
Finance Expense	171,872	189,999
Other adjustments	—	361
Changes in working capital	**(33,460)**	**(152,527)**
Inventories	2,226	5,558
Debtors and other receivables	44,864	(33,061)
Creditors and other payables	(52,921)	(53,453)
Other current liabilities	(27,629)	(71,571)
Other cash flows from operating activities	**(229,326)**	**(222,466)**
Payment/proceeds of interest	(229,326)	(222,466)
	274,597	**168,421**
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows on investments:	**(169,888)**	**(150,462)**
Tangible/Intangible assets	(169,888)	(150,462)
Inflows from disinvestments:	**5,808**	**1,079**
Tangible/Intangible assets	261	1,079
Assets held for sale	5,547	—
Cash flows from other financial assets	**(12,784)**	**74**
	(176,864)	**(149,309)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds and payments from equity instruments	**125,000**	**—**
Proceeds and payments from financial liability instruments	**(355,114)**	**(122,116)**
Senior Bank Facility	(197,559)	—
Other credit lines	(73,708)	(30,410)
Subsidised loans	(11,049)	(13,098)
Other debts	(1,331)	(7,141)
Deferred Payment from Auna	(71,467)	(71,467)
	(230,114)	**(122,116)**
NET INCREASE/DECREASE IN CASH & CASH EQUIVALENTS	**(132,381)**	**(103,004)**
Cash or cash equivalents at beginning of the period	237,790	341,549
Cash or cash equivalents at end of the period	105,409	238,545

(*) **Unaudited**

The above consolidated statement of cash-flows should be read in conjunction with the accompanying notes.

ONO MIDCO, S.A.U. AND SUBSIDIARIES (MIDCO GROUP)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2010 (Thousands of Euros)

1. General information

The primary activity of ONO Midco, S.A.U. and its consolidated subsidiaries (hereinafter also, "ONO Midco Group") is the development and operation of integrated cable television and telecommunications networks in Spain through the transmission of voice and data.

ONO Midco, S.A.U. is the sole shareholder of Cableuropa, S.A.U. and does not engage any other activity than holding Cableuropa, S.A.U. shares.

ONO Midco Group, which operates in the market under the trade mark ONO, comprises principally operating companies that are legally authorised to provide different telecommunications and audiovisual services.

ONO Midco, S.A.U. (hereinafter also "the parent Company") was incorporated on 3 May 2006 for an indefinite term. The Company's registered office for mercantile and tax purposes is located at Belagua, calle Basauri 7-9, urbanización La Florida, Aravaca, Madrid.

The consolidated financial statements for the year ended 31 December 2009 were duly drawn up by the Board of Directors on 25 March 2010.

2. Basis of presentation and other information

a) Basis of presentation, accounting policies and use of estimates

This consolidated interim financial information for the nine month period ended 30 September 2010 has been prepared in accordance with the Law 1/2008 on "Interim financial information" published by the Spanish Exchange Commission (Comisión Nacional del Mercado de Valores) in January 2008, which aims to ensure increased convergence with International Accounting Standard (IAS) 34, on "Interim Financial Reporting".

This consolidated interim financial information has been prepared to provide an update on the consolidated financial statements for the year ended 31 December 2009. It focuses on new activities, events and circumstances that are significant to an understanding of the changes in financial position and performance of ONO Midco Group during the nine month period ended 30 September 2010 and do not duplicate information previously reported. Accordingly, this consolidated interim financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2009, which have been prepared in accordance with Spanish GAAP.

The accounting policies adopted in the preparation of the consolidated interim financial statements for the nine month period ended 30 September 2010 are consistent with those of the consolidated financial statements for the year ended 31 December 2009 (note 3) and have been uniformly applied by all the companies in ONO Midco Group.

ONO Midco Group is not listed on the stock market and has not identified business or geographical segments. Accordingly, this consolidated interim financial information does not disclose earning per share information in accordance with IFRS 33 "Earnings per Share" or segment information in accordance with IFRS 8 "Operating Segments".

There is no accounting principle that may have a significant effect on the consolidated interim financial statements has not been applied on its preparation.

During the nine month period ended 30 September 2010, there were no changes in estimates reported in the consolidated financial statements for the year ended 31 December 2009.

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the annual effective income tax rate changes.

In spite of the current macroeconomic environment, ONO Midco Group believes that it will generate sufficient profit to offset its tax credits. Nevertheless, there are risks and uncertainties in the general economic environment and the financial markets that may adversely affect ONO Midco Group's ability to generate enough profits to offset all of these tax credits in a timely manner.

The figures shown in the documents that comprise this consolidated financial information are in thousands of Euros, unless otherwise stated.

b) Consolidation policies

The consolidation policies applied in preparing these consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2009.

c) Comparative information

The information contained in these consolidated interim financial statements concerning the nine month period ended 30 September 2009 is presented solely for comparison purposes with the information concerning the nine month period ended 30 September 2010.

d) Seasonality of operations

The historical consolidated results do not indicate that ONO Midco Group's transactions, taken as a whole, are subject to significant variations between the different periods of the year.

e) Materiality

Materiality has been assessed in deciding how to recognize, measure, classify or disclose the interim period financial data. In making assessments of materiality, interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

3. Property, plant and equipment and intangible assets

Movement in "Property, plant and equipment" for the nine month period ended 30 September 2010 and 2009 is as follows:

	Property, plant and equipment	
	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Cost		
Balance at 1 January	**6,996,067**	**6,859,548**
Additions	151,270	133,244
Disposals	(8,144)	(15,788)
Transfers	—	(7,813)
Balance at 30 September	**7,139,193**	**6,969,191**
Accumulated depreciation		
Balance at 1 January	**(2,587,553)**	**(2,248,443)**
Depreciation charge	(263,452)	(267,534)
Depreciation disposals	6,634	2,876
Depreciation transfers	—	864
Balance at 30 September	**(2,844,371)**	**(2,512,237)**
Impairment losses		
Balance at 1 January	**(69,004)**	**(70,430)**
Impairment losses applied/ (recognised) in the period	894	—
Balance at 30 September	**(68,110)**	**(70,430)**
Net book value		
Balance at 1 January	**4,339,510**	**4,540,675**
Balance at 30 September	**4,226,712**	**4,386,524**

(*) Unaudited

Additions under "Property, plant and equipment" for the nine month ended 30 September 2010 and 2009 mainly correspond to network investment.

Movement in "Intangible assets" for the nine month period ended 30 September 2010 and 2009 is as follows:

	Intangible assets	
	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Cost		
Balance at 1 January	**283,109**	**254,367**
Additions	18,618	17,218
Disposals	(1)	(72)
Transfers	—	7,558
Balance at 30 September	**301,726**	**279,071**
Accumulated depreciation		
Balance at 1 January	**(170,842)**	**(138,242)**
Depreciation charge	(25,873)	(25,479)
Depreciation disposals	100	69
Depreciation transfers	—	(609)
Balance at 30 September	**(196,615)**	**(164,261)**
Net book value		
Balance at 1 January	**112,267**	**116,125**
Balance at 30 September	**105,111**	**114,810**

(*) Unaudited

During the nine month period ended 30 September 2010 and 2009 no impairment adjustments were recognised for property, plant and equipment or intangible assets.

As at 30 September 2010 and 2009 there is no significant property, plant and equipment or intangible assets subject to ownership restrictions or pledged to secure liabilities.

ONO Midco Group has several insurance policies to cover the risks the property, plant and equipment is exposed to. The insurance coverage is considered sufficient.

4. Financial instruments

a) Financial assets

The carrying amounts of each one of the financial assets categories established in the "Financial instruments" accounting policy, except "Investments in the equity of associated companies" and "Cash and cash equivalents", as at 30 September 2010 and 31 December 2009 are as follows:

	Non-current financial assets							
	Equity instruments		Securities representing debt		Credits, Derivatives and Other		Total	
	2010(*)	2009	2010(*)	2009	2010(*)	2009	2010(*)	2009
	Thousands of Euros							
Held to maturity financial assets	1,059	1,059	—	—	—	—	1,059	1,059
Loans and receivables	—	—	—	—	5,723	5,481	5,723	5,481
	1,059	**1,059**	**—**	**—**	**5,723**	**5,481**	**6,782**	**6,540**

	Current financial assets							
	Equity instruments		Securities representing debt		Credits, Derivatives and Other		Total	
	2010(*)	2009	2010(*)	2009	2010(*)	2009	2010(*)	2009
	Thousands of Euros							
Loans and receivables	—	—	—	—	135,261	124,545	135,261	124,545
	—	**—**	**—**	**—**	**135,261**	**124,545**	**135,261**	**124,545**

(*) Unaudited

Loans and receivables

The breakdown of loans and receivables as at 30 September 2010 and 31 December 2009 is as follows:

	30 September 2010(*)	31 December 2009
	Thousands of Euros	
Long-term loans and receivables		
—Loans to employees	250	250
—Deposits	5,473	5,231
	5,723	**5,481**
Short-term loans and receivables		
—Trade receivables and sundry debtors	299,740	274,813
—Receivables from related parties (note 11)	12	6,646
—Public authorities	552	695
—Impairment provision	(182,932)	(162,731)
Trade and other receivables	117,372	119,423
—Deposits and other		
Credits from related parties (note 11)	9,559	—
Other deposits	8,330	5,122
	17,889	5,122
	135,261	**124,545**

(*) Unaudited

The caption "Trade receivables and sundry debtors" relates mainly to receivables arising from the provision of telephone, television and broadband Internet services to direct-access residential customers, indirect-access customers and business clients and the provision of interconnection services to other operators.

Movement on the impairment provision for trade receivables for the nine month period ended 30 September 2010 and 2009 is as follows:

	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Beginning of period	(162,731)	(182,830)
Impairment provision for trade receivables	(20,233)	(25,575)
Application	32	—
Other	—	(2,628)
End of period	**(182,932)**	**(211,033)**

(*) Unaudited

b) Financial liabilities

The financial liabilities breakdown as at 30 September 2010 and 31 December 2009 is as follows:

	Non-current financial liabilities							
	Borrowings from credit institutions		Debentures and other negotiable securities		Derivatives and Other		Total	
	2010(*)	2009	2010(*)	2009	2010(*)	2009	2010(*)	2009
	Thousands of Euros							
Debits and payables	3,163,861	3,078,022	450,000	450,000	1,543	953	3,615,404	3,528,975
Hedging derivatives	—	—	—	—	—	15,754	—	15,754
	3,163,861	**3,078,022**	**450,000**	**450,000**	**1,543**	**16,707**	**3,615,404**	**3,544,729**

	Current financial liabilities							
	Borrowings from credit institutions		Debentures and other negotiable securities		Derivatives and Other		Total	
	2010(*)	2009	2010(*)	2009	2010(*)	2009	2010(*)	2009
	Thousands of Euros							
Debits and payables	123,230	551,967	14,630	14,630	359,408	487,639	497,268	1,054,236
Hedging derivatives	—	—	—	—	5,422	39,013	5,422	39,013
	123,230	**551,967**	**14,630**	**14,630**	**364,830**	**526,652**	**502,690**	**1,093,249**

(*) Unaudited

Derivatives financial instruments

ONO Midco Group has hedging financial instruments (swaps) for the floating interest rates in order to be covered against the fluctuations of the Senior Bank Facility interest rates.

The swaps contracts amount to €500 million as of 30 September 2010, its maturity dates are January 2011.

The evolution of the hedge contracts value during the nine month period ended 30 September 2010 is as follows:

	Before tax	After tax
	Thousands of Euros	
Movements of hedge contracts value		
Fair value at 31 December 2009—Adjustment to net equity	(54,767)	(38,336)
Changes in the fair value during the year, against net equity (see consolidated statement of comprehensive income)	49,345	34,541
Fair value at 30 September 2010	**(5,422)**	**(3,795)**

Cash flows associated to hedge contracts will finish in January 2011.

Debits and payables

The breakdown of debits and payables as at 30 September 2010 and 31 December 2009 is as follows:

	30 September 2010(*)	31 December 2009
Long-term debts and payables:		
—Debt related to the issuance of bonds	450,000	450,000
—Senior Bank Facility	3,140,610	3,039,563
—Mortgage loans	68	210
—Payables under lease agreements	2,306	3,277
—ICO Loan	10,000	10,000
—Other loans	—	5,980
—Subsidised loans (PROFIT)	10,877	18,992
Long term debt in credit institutions and other long term debts (see payment calendar)	**3,613,861**	**3,528,022**
Other payables	1,543	953
	3,615,404	**3,528,975**
Short-term debts and payables:		
—Loans from credit institutions	106,667	545,317
—Payables under lease agreements	1,258	1,389
—Interest related to the issuance of bonds	15,305	5,261
Short term debt in credit institutions and other short term debts	**123,230**	**551,967**
Other financial liabilities (EVCs)	14,630	14,630
—Suppliers and property, plant and equipment suppliers	319,285	352,169
—Related parties (note 11)	5,978	13,019
—Guarantee deposits	2,130	2,342
—Short-term public authorities debt	13,666	15,200
—Outstanding employee remunerations	18,349	23,967
—Other financial liabilities (Auna and others)	—	80,942
Trade and other payables	**359,408**	**487,639**
	497,268	**1,054,236**
Long and short term debts and payables:	**4,112,672**	**4,583,211**

(*) Unaudited

Refinancing transactions

In 2009 ONO Midco Group started negotiations with lenders of its €3.600 thousands Senior Bank Facility in order to align the debt maturities to the new macroeconomic environment and business development.

On 8 March 2010, Grupo Corporativo ONO (parent company of ONO Midco, S.A.U.) Board of Directors approved the Refinancing Proposal and the borrowing of €200 million from its shareholders in the form of a participative loan.

On 13 May 2010, Cableuropa (ONO Midco, S.A.U. subsidiary) closed its refinancing plan with the strong support of banks and shareholders. The purpose of this plan was to provide Cableuropa with additional flexibility to meet its principal debt amortisation obligations and permit management to focus on continuing to enhance operations and grow cash flow. This refinancing agreement is effective from 21 May 2010, once all conditions precedent were satisfied.

The financing banks agreed to amend the Company's €3,600 million Senior Facility (i) to create additional term loan facilities to the Senior Facility that will act as "forward-start" facilities (such additional term loan facilities will mature on 30 June 2013 and are drawn to partially extend maturities of facilities A, B and I of the Senior Facility falling due between 30 June 2010 and 31 December 2012); (ii) to create an additional €64 million revolving tranche that will mature on 31 July 2012; (iii) to permit the creation in the future of additional term loan facilities under which the proceeds from debt capital markets instruments raised by a third party or new bank debt will be on-lent to the Company to refinance existing debt under Senior Facility; (iv) to reset financial covenants; and (v) to amend certain definitions in the Senior Facility agreement. In addition, the amendment includes commitments to voluntary prepay existing facilities through the issuance of senior debt. After this amendment the maximum available amount decreased from €3,600 million to €3,555 million.

Existing ONO Shareholders agreed to contribute €200 million, of which €125 million were injected on 21 May 2010 as deeply subordinated participative loan and the remaining €75 million are held in escrow and subject to certain liquidity tests.

The payment calendar without considering the discount effect as at 30 September 2010 and 31 December 2009, of the long and short-term debt with credit institutions and of the financial lease creditors is as follows:

	30 September 2010										
			Maturities								
	Average interest rate 2010	Maximum available at 30.09.10	31.12.10	30.09.11	31.12.11	2012	2013	2014	Subsequent years	Total debt	Interest payable
			Thousands of Euros								
Type of debt											
Debt with credit institutions											
Senior Bank Facility(*)	2.68%	3,500,237	52,057	52,058	57,057	171,172	2,933,893	—	—	3,266,237	3,054(**)
Mortgage loan	3.22%	288	78	142	18	35	15	—	—	288	—
Leasing	1.78%	3,564	357	901	279	908	934	165	20	3,564	—
ICO loan	3.45%	10,000	—	—	—	—	—	10,000	—	10,000	1
Other credit lines	2.98%	10,700	—	2,599	—	—	—	—	—	2,599	36
Total debt with credit institutions		**3,524,789**	**52,492**	**55,700**	**57,354**	**172,115**	**2,934,842**	**10,165**	**20**	**3,282,688**	**3,091**
Other debt											
Debt related to the issuance of bonds	9.00%	450,000	—	—	—	—	—	450,000	—	450,000	15,305
Subsidised loans(***)	—	21,849	391	9,443	481	7,569	1,424	397	2,144	21,849	—
Total other debt		**471,849**	**391**	**9,443**	**481**	**7,569**	**1,424**	**450,397**	**2,144**	**471,849**	**15,305**
Total long- and short-term debt		**3,996,638**	**52,883**	**65,143**	**57,835**	**179,684**	**2,936,266**	**460,562**	**2,164**	**3,754,537**	**18,396**

(*) The payment calendar does not include the discount effect amounting €34,704 thousand (€21,512 thousand in long-term and €13,192 thousands in short-term).

(**) €2,5 million corresponds to hedging financial instruments (swaps).

(***) The subsidised loans include the subsidy recognised in the Total Equity for an amount of €797 thousand as well as its related tax impact amounting to €341 thousand.

	31 December 2009										
			Maturities								
	Average interest rate 2009	Maximum available at 31.12.2009	2010	2011	2012	2013	2014	Subsequent years	Total debt	Interest payable
			Thousands of Euros							
Type of debt										
Debt with credit institutions										
Senior Bank Facility(*)	3.46%	3,464,000	414,000	590,000	960,000	1,499,795	—	—	3,463,795	47,812
Mortgage loan	4.28%	518	308	159	36	15	—	—	518	—
Leasing	4.07%	4,667	1,389	1,200	931	945	177	25	4,667	—
ICO loan	4.69%	10,000	—	—	—	—	10,000	—	10,000	1
Other credit lines	3.23%	92,600	70,324	1,400	4,580	—	—	—	76,304	631
Total debt with credit institutions		**3,571,785**	**486,021**	**592,759**	**965,547**	**1,500,755**	**10,177**	**25**	**3,555,284**	**48,444**
Other debt										
Debt related to the issuance of bonds	9.00%	450,000	—	—	—	—	450,000	—	450,000	5,261
Subsidised loans (**)	—	32,898	12,241	9,965	7,578	1,361	334	1,419	32,898	—
Total other debt		**482,898**	**12,241**	**9,965**	**7,578**	**1,361**	**450,334**	**1,419**	**482,898**	**5,261**
Total long- and short-term debt		**4,054,683**	**498,262**	**602,724**	**973,125**	**1,502,116**	**460,511**	**1,444**	**4,038,182**	**53,705**

(*) The payment calendar does not include the discount effect amounting €10,232 thousand.

(**) The subsidised loans include the subsidy recognised in the Total Equity for an amount of €1,166 thousand as well as its related tax impact amounting to €500 thousand.

Short-term credit lines

As at 30 September 2010 and 31 December 2009 ONO Midco Group had the following undrawn credit lines:

	30 September 2010(*)	31 December 2009
	Thousands of Euros	
Variable rate:		
—maturing at less than one year	3,188	15,076
—maturing at more than one year	4,913	1,220
	8,101	**16,296**

(*) Unaudited

The credit lines maturing at less than one year are subject to a number of revisions in the last quarter of 2010 and 2011.

Deferred payment of AUNA

The remaining €71 million of AUNA payment were paid in January 2010.

5. Other variations in current liabilities. Deferred Income.

As at 1 December 2009, First Instance Court of Madrid sentenced Sogecable to pay an indemnity to Cableuropa for damages caused, amounting to €44 million plus legal interests, due to the breach of the signed contract between both companies concerning the distribution of Gran Vía and Cablesport channels.

Cableuropa and Sogecable agreed a calendar payment by which during the period from December 31, 2009 to September 30, 2010 €37.6 million has been advanced in cash by Sogecable. The sentence has been appealed by Sogecable at the Provincial Court of Madrid.

In addition, on 9 March 2010 Sogecable was ordered by First Instance Court of Madrid to pay €51,7 million plus interests to Cableuropa for abuse of dominant position in relation with 2003/2004 to 2008/2009 football content contracts. Sogecable and Cableuropa have agreed a payment calendar by which all outstanding amounts are expected to be collected in the short term. As of September 30, 2010 €9 million has been advanced in cash by Sogecable. The sentence has been appealed by Sogecable at the Provincial Court of Madrid.

As at 30 September 2010, these amounts have been considered contingent assets, and no revenue has been recognised yet, as the final indemnity amounts depends on the final Court settlements.

6. Net Equity

a) Capital and share premium

On 29 May 2009, the Sole Shareholder approved a share capital reduction to restore the balance between share capital and equity by reducing the par value of each and every one of the 43.816.966 shares by 2,9997 Euros. As a result, the par value of each share is 3,0003 Euros. The shares are fully subscribed and paid up by Grupo Corporativo Ono, S.A., Sole Shareholder of the controlling company.

The reduction has been carried out by offsetting accumulated losses. Said capital reduction was entered in the Mercantile Register with effects on 23 December 2009.

On 4 November 2005, the shares of what is currently Cableuropa, S.A.U. were pledged as security for the preferred secured loan granted to the former Cableuropa, S.A.U., having resolved unanimously the board of ONO Midco that the Company should adhere as pledgers to the pledge in respect of the shares in question.

b) Shareholders contributions

As at 31 December 2008, shareholders' contributions relate to the participating loan that Cableuropa S.A.U received from Grupo Corporativo Ono to finance the purchase of Auna Telecomunicaciones, S.A.U amounting to €955 million. Repayment of the participating loan is not set to begin until 2020. If it is repaid, such repayment will be through a capital increase or through the express agreement of both parties. Therefore the amount of that loan is considered as equity.

On 29 May 2009, Grupo Corporativo ONO sold to Cableuropa, S.A.U. the EVCs it owned which matured in May 2009 so that the latter could cancel the same with ONO Finance PLC. The total price payable by Cableuropa, S.A.U. to Grupo Corporativo ONO amounted to €6.496 thousand. This resulting credit right in favor of Grupo Corporativo ONO has been defined as a subordinated debt. Likewise, Grupo Corporativo ONO loaned Cableuropa, S.A.U. the additional amount necessary for the latter to pay the EVCs with ONO Finance PLC (€1.222 thousand). These participating loans will not have to be repaid before 2020. In the event of repayment, this would be carried out by means of a capital increase or by express agreement of the parties. As a result, the amount of these loans is considered as equity.

On 21 May 2010, Cableuropa, S.A.U. received from Grupo Corporativo Ono, S.A. a participating loan amounting €125 million. The participating loan will not have to be repaid before 31 December, 2019. In the event of repayment, this would be carried out by means of a capital increase or by express agreement of the parties. As a result, the amount of this loan is considered as equity.

7. Long and short- term provisions

Movement on the provisions recognised in the balance sheet for the nine month period ended 30 September 2010 and 2009 is as follows:

	Onerous contracts	Restructuring	Litigations and other	Total
	Thousands of Euros			
Balance at 1 January 2009	**115,154**	**39,033**	**68,712**	**222,899**
Charge for year	6,140	—	2,884	9,024
Applications	(31,181)	(36,677)	(9,790)	(77,648)
Balance at 30 September 2009(*)	**90,113**	**2,356**	**61,806**	**154,275**
Balance at 1 January 2010	**83,916**	**2,187**	**66,410**	**152,513**
Charge for year	3,500	—	984	4,484
Applications	(23,035)	—	(5,103)	(28,138)
Other	—	17	(17)	—
Balance at 30 September 2010(*)	**64,381**	**2,204**	**62,274**	**128,859**

(*) Unaudited

As at 30 September 2010 and 2009 the analysis of the total of these provisions is as follows:

	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Non-current	96,489	121,754
Current	32,370	32,521
	128,859	**154,275**

(*) Unaudited

8. Net Revenue

Net revenue by service line may be analysed as follows:

	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Services to the residential market	869,003	870,056
Indirect access	5,609	7,628
Businesses	162,289	180,390
Carrier, operators and other	66,218	82,229
	1,103,119	**1,140,303**

(*) Unaudited

All revenue was obtained in national territory.

9. Income tax and tax situation

a) Consolidated tax regime

In 2002, Grupo Corporativo ONO, S.A. notified its election to apply the consolidated tax regime. ONO Midco Group has consolidated for tax purposes since 1 January 2003.

The parent company for tax consolidation is Grupo Corporativo ONO, S.A., Sole Shareholder of the ONO Midco Group.

b) Income tax

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Income tax rate for the year 2010 is approximately 30%.

c) Years open to inspection

On March 2008, the Spanish Tax Authorities notified to Cableuropa, S.A.U. (previously Auna Telecomunicaciones, S.A.U.) the commencement of audit activities in relation to Corporate Income Tax for fiscal years 2003, 2004 and 2005 and Value Added Tax for the periods elapsed between March 2004 and December 2005.

On 27 September 2010 Cableuropa has received the definitive liquidation for the tax assessments of the Corporate Income Tax for years 2003-2005 under tax audit. As a result, €5 million have been written-off from the tax credits booked in the balance sheet as of 30 September.

In addition, the ONO Midco Group has carried out a regularization of other tax balances and deductions which has impacted the third quarter of the year.

Both, Cableuropa and ONO Midco, are part of the tax consolidated group headed by Grupo Corporativo ONO.

10. Assets and liabilities held for sale

Disposal groups held for sale—Factoría de Canales.

During 2009, the Board of Directors of ONO Group approved the sale process of the television content subsidiary Factoría de Canales, S.A. As a consequence, as at 31 December 2009, ONO Midco Group recognised an impairment due to the correction of the assets and liabilities value of Factoría de Canales, based on third offers, that caused a negative impact in ONO Midco Group results of €9,8 million, in the 2009 December profit and loss account.

On 9 April 2010 ONO closed the disposal of its television content subsidiary Factoría de Canales, S.A. This transaction has caused a positive impact in ONO Midco Group results of €1,5 million.

Non-current assets held for sale:

During 2009, ONO Midco Group reclassified an amount of €14,9 million corresponding to the net accounting value of a building property of the subsidiary Cableuropa, S.A.U. The sale of this building is been actively negotiated and ONO Midco Group estimates to complete the sale on early 2011.

11. Related-party transactions

The balances as at 30 September 2010 and 31 December 2009 with Group and related companies and volumes of transactions carried out during the nine month period ended 30 September 2010 and 2009 with them are set out below:

	30 September 2010(*)		31 December 2009	
	Receivables	Payables	Receivables	Payables
	Thousands of Euros			
Balances				
Grupo Corporativo ONO, S.A.	9,568	5,978	1,562	10,550
Factoría de Canales, S.L.	—	—	5,084	2,469
SCH	3	—	—	—
Cable submarino de Canarias, S.A.	—	—	—	—
Total balances	**9,571**	**5,978**	**6,646**	**13,019**

(*) Unaudited

	30 September 2010(*)		30 September 2009(*)	
	Financial Expenses	Services received	Financial Expenses	Services received
Transactions				
Grupo Corporativo ONO, S.A.	2,554	7,500	2,554	3,500
Cable submarino de Canarias, S.A.	—	765	—	931
Total transactions	**2,554**	**8,265**	**2,554**	**4,431**

(*) **Unaudited**

	30 September 2010(*)		30 September 2009(*)	
	Financial Income	Services provided	Financial Income	Services provided
Grupo Corporativo ONO, S.A.	95	—	—	—
Cable submarino de Canarias, S.A.	—	11	—	11
Total transactions	**95**	**11**	**—**	**11**

(*) **Unaudited**

During the nine month period ended 30 September 2010 the main transactions with related parties amount to €7.5 million with Grupo Corporativo ONO, S.A. regarding financial structuring services and €0.8 million with Cable Submarino de Canarias regarding fibre rental.

12. Compensation of the Board of Directors and senior management

a) Compensation of the members of the Board of Directors

During the nine month period ended 30 September 2010 and 2009, ONO Midco Group has not paid any compensation to the Board of Directors.

b) Compensation to senior management

The total compensation to ONO Midco Group senior management in the nine month period ended 30 September 2010 and 2009, is as follows:

	30 September 2010(*)	30 September 2009(*)
	Thousands of Euros	
Total compensation	2,663	1,780

(*) **Unaudited**

13. Employees

The average number of employees for the nine month period ended 30 September 2010 and 2009 by sex and categories is as follows:

	30 September 2010			30 September 2009		
	Men	Women	Total	Men	Women	Total
Directors	84	10	94	87	11	98
Qualified, technical	1,450	564	2,014	1,153	829	1,982
Administration	373	833	1,206	843	621	1,464
	1,907	**1,407**	**3,314**	**2,083**	**1,461**	**3,544**

14. Other information

Contingent liabilities

ONO Midco Group has contingent liabilities for litigations arising in the normal course of business. No significant liabilities other than those already provided for are expected to arise from these litigations (note 7).

ONO Midco Group holds guarantees with several Spanish credit institutions to secure compliance with certain financial and technical commitments held with the Ministry of Industry, Tourism and Trade, City Councils and other organisations and entities.

Details of commitments assumed at 30 September 2010 and 31 December 2009 are as follows:

	30 September 2010	31 December 2009
	Thousands of Euros	
Ministry of Industry, Tourism and Trade	25,990	35,129
City Councils and other entities	56,874	76,579
Total	**82,864**	**111,708**

15. Post balance sheet events

On 22 October 2010 the company announced the successful completion of the issue of €700 million Senior Secured Bonds. The deal was launched on 11 October 2010 for a planned initial offering amount of €500 million which was subsequently increased by €200 million in light of the market demand.

The inflow from the €700 million bond issue, has been used to prepay a portion of the bank debt and the issuance has, therefore, not resulted in an increase of the company leverage, but a refinancing.

The high yield bonds were issued by Nara Cable Funding Limited, an independent, standalone special purpose vehicle.