

LISTING PARTICULARS

August 10, 2004

€280,000,000

ONO Finance Plc

180,000,000 10.5% Senior Notes due 2014
100,000,000 Floating Rate Senior Notes due 2014
Guaranteed on a Senior Subordinated Basis by
Cableuropa, S.A.U. and certain of its subsidiaries

ONO Finance Plc ("ONO Finance") issued €180,000,000 aggregate principal amount of its 10.5% senior notes due 2014 (the "Fixed Rate Notes") and €100,000,000 aggregate principal amount of its floating rate senior notes due 2014 (the "Floating Rate Notes" and, together with the Fixed Rate Notes, the "Notes"). ONO Finance will lend the proceeds of the offering of the Notes to Cableuropa, S.A.U. ("Cableuropa") and certain of its subsidiaries.

ONO Finance will pay interest on the Floating Rate Notes on February 15, May 15, August 15 and November 15 of each year, beginning on August 15, 2004. ONO Finance may redeem some or all of the Floating Rate Notes at any time on or after May 15, 2006, at the redemption prices set forth in this offering memorandum, plus accrued and unpaid interest.

ONO Finance will pay interest on the Fixed Rate Notes on May 15 and November 15 of each year, beginning on November 15, 2004. Prior to May 15, 2009, ONO Finance may redeem all or part of the Fixed Rate Notes at a redemption price of 100% of principal plus accrued and unpaid interest and the applicable "make whole" premium described in this offering memorandum. ONO Finance may redeem some or all of the Fixed Rate Notes at any time on or after May 15, 2009, at the redemption prices set forth in this offering memorandum, plus accrued and unpaid interest.

Prior to May 15, 2006, ONO Finance may redeem up to 35% of the Floating Rate Notes with the proceeds of certain public equity offerings. Prior to May 15, 2007, ONO Finance may redeem up to 35% of the Fixed Rate Notes with the proceeds of certain public equity offerings. There is no sinking fund for the Notes. Holders may require ONO Finance to repurchase their Notes upon a change of control.

The Notes will be unsecured senior obligations of ONO Finance and will rank equally with all of its other unsecured senior indebtedness. The Notes will be guaranteed on a senior subordinated basis by Cableuropa and certain of its subsidiaries as to the payment of principal, premium, if any, interest and all other amounts payable under the Notes.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 23.

The Notes and the guarantees thereof have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and are being offered and sold in the United States only to "Qualified Institutional Buyers" (as defined under Rule 144A under the U.S. Securities Act ("Rule 144A")) and outside the United States in accordance with Regulation S under the U.S. Securities Act ("Regulation S"). For a description of certain restrictions on transfers, see "Plan of Distribution" and "Notice to Investors."

Offering Price for the Fixed Rate Notes: 100% of principal, plus accrued interest, if any
Offering Price for the Floating Rate Notes: 100% of principal, plus accrued interest, if any

The Managers are offering the Notes subject to various conditions. The Managers expect to deliver the Notes to purchasers on or about May 17, 2004. Application has been made to list the Notes on the Luxembourg Stock Exchange.

Joint Book-Running Managers

Banc of America Securities Limited BNP PARIBAS Deutsche Bank Morgan Stanley

Co-Managers

Barclays Capital Calyon Corporate and Investment Bank Fortis Bank
The Royal Bank of Scotland UBS Investment Bank

INCORPORATION BY REFERENCE

We are incorporating by reference into these listing particulars financial information of Cableuropa, S.A.U., Valencia de Cable, S.A. ("Valencia"), Mediterránea Norte Sistemas de Cable, S.A. ("Valencia North"), Mediterránea Sur Sistemas de Cable, S.A. ("Valencia South") and Región de Murcia de Cable, S.A. ("Murcia"). This means that we are disclosing important information to you by referring you to those documents. The information we incorporate by reference is an important part of these listing particulars. We incorporate by reference the following documents:

- Cableuropa's consolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003;
- Valencia's unconsolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003;
- Valencia North's unconsolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003;
- Murcia's unconsolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003; and
- Valencia South's unconsolidated financial statements as of and for the years ended December 31, 2001, 2002 and 2003.

Copies of the documents incorporated by reference herein are available free of charge from The Bank of New York (Luxembourg) S.A., the Luxembourg paying agent and transfer agent for the notes.

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Important Information

In making your investment decision, you should rely only on the information contained in this offering memorandum or to which we have referred you. No person is authorized to give you any information or to make any representation to you not contained in this offering memorandum in connection with the offering of the Notes, and any information or representation not contained herein will not be deemed as having been authorized by us or on our behalf. No representation or warranty, express or implied, is made by us or any of our affiliates, advisers or selling agents as to the accuracy or completeness of any information contained in this offering memorandum.

We, having made all reasonable inquiries, confirm to the best of our knowledge, information and belief that the information contained in this offering memorandum with respect to Cableuropa and its subsidiaries taken as a whole and the Notes is true and accurate in all material respects and is not misleading in any material respect, and that there are no other facts, the omission of which in connection with the issue and offering of the Notes would make this offering memorandum as a whole misleading in any material respect.

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the cover of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

This offering memorandum is a confidential document that we are providing only to prospective purchasers of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not:

- use this offering memorandum for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person.

Statements contained in this offering memorandum as to the contents of any contract, agreement or other document may not contain all of the information that you may find important. For a more comprehensive understanding of these matters you should read the contract, agreement or other document, a copy of which will be made available upon request. See "Where You Can Find More Information." Where the contract, agreement or other document is summarized in this offering memorandum, each statement contained in this offering memorandum is qualified in all respects by the provisions of the applicable contract, agreement or other documents, to which reference is made.

The offering is being made solely on the basis of this offering memorandum. We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. In making your investment decisions, you should not consider any information in this offering memorandum to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Notes. By purchasing the Notes you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request, receive and review all additional information that you need from us;
- you have made certain acknowledgements, representations and agreements as set forth under the captions "Notice to Investors"; and
- Banc of America Securities Limited, BNP Paribas, Deutsche Bank AG London, Morgan Stanley & Co. International Limited, Barclays Bank PLC, CALYON, Fortis Bank S.A./N.V., The Royal Bank of Scotland plc and UBS Limited (each, a "Manager," and together, the "Managers") are not responsible for, and are not making any representation or warranty to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

The Notes and the guarantees thereof have not been and will not be registered under U.S. Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States, as defined in Regulation S. The Notes are being offered and sold outside the United States in reliance on Regulation S and within the United States only to "Qualified Institutional Buyers" in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and the distribution of this offering memorandum, see "Notice to Investors." You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

The Notes have not been approved or disapproved by the SEC, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

This offering memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this offering memorandum and the offering of the Notes may be in certain jurisdictions restricted by law. Persons into whose possession this offering memorandum comes must inform themselves about and observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see "Plan of Distribution" and "Notice to Investors." We are not, nor are ONO Finance or the Managers making any representation to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under any applicable law. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain all applicable consents and approvals; we shall not, nor shall ONO Finance or the Managers have any responsibility for any of the foregoing legal requirements.

We reserve the right to withdraw this offering at any time and the Managers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of Notes sought by such purchaser.

Notwithstanding anything in this offering memorandum to the contrary, we and each prospective investor (and any employee, representative, or other agent of ours or of any prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to us or to it relating to such tax treatment and tax structure. However, any such information relating to the tax treatment or tax structure is required to be kept confidential to the extent necessary to comply with any applicable federal or state securities laws.

The information set out in the sections of this offering memorandum describing clearing and settlement is subject to any change or reinterpretation of the rules, regulations and procedures of, Euroclear Bank S.A./N.V. ("Euroclear") or Clearstream Banking, *société anonyme* ("Clearstream Banking"), currently in effect. Investors wishing to use these clearing systems are advised to confirm the continued applicability of their rules, regulations and procedures. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to these book-mark interests.

We cannot guarantee that our application to list the Notes on the Luxembourg Stock Exchange will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditioned on obtaining this listing.

Certain Regulatory Issues Related to the United Kingdom

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 29(2) of the Order (all such persons together being referred to as "relevant persons"). The Notes are available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes 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.

Certain Regulatory Issues Related to Spain

The Notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*), as amended and restated, and Royal Decree 291/1992, on issues and public offerings for the sale of securities (*Real Decreto 291/1992, de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores*), as amended and restated, and the decrees and regulations made thereunder. The Notes may not be sold, offered or distributed to persons in Spain except (i) in circumstances which do not constitute an offer of securities in Spain within the meaning of Spanish Securities Market Law and further relevant legislation or (ii) pursuant to Article 7 of Royal Decree 291/1992 and subject to compliance with the registration requirements set out therein. This offering memorandum has not been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore it is not intended for the offering or sale of the Notes in Spain.

Certain Regulatory Issues Related to Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly, the sales of the Notes in the Republic of Italy shall only be carried out in compliance with the requirements of Legislative Decree No. 58 of February 24, 1998, as amended ("Legislative Decree No. 58"), Legislative Decree No. 385 of September 1, 1993 (the "Banking Law"), and the relevant implementing regulations, and shall in any event be effected in accordance with all relevant Italian securities, tax and exchange controls and other applicable laws and regulations and in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy. In any case, the Notes will not be sold, either in the primary or in the secondary market, to individuals residing in the Republic of Italy. In addition, to the extent that any Notes are sold to institutional investors in the Republic of Italy, the minimum amount of such Notes shall be € 100,000.

Notice to New Hampshire Residents

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE

PROVISIONS OF THIS PARAGRAPH.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this offering memorandum, which is the sixth business day following the date hereof (such settlement cycle being herein referred to as "T+6"). Purchasers of the Notes should note that trading of the Notes on the date hereof may be affected by these settlement dates. See "Plan of Distribution."

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY & CO. INTERNATIONAL LIMITED OR ANY PERSONS ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON MORGAN STANLEY & CO. INTERNATIONAL LIMITED OR ANY PERSON ACTING FOR IT TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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 "Offering Memorandum Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa," "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 include, but are not limited to:

- our continued and substantial net losses;
- our ability to generate sufficient cash flow to fulfill our debt obligations;
- our substantial leverage and ability to service our debts;
- changes in the accounting standards under which we prepare our financial statements;
- our failure to ensure sufficient access to premium programming;
- difficulties we may encounter in integrating future acquisition targets and the extent to which it is necessary to devote significant management time and capital resources to any acquired business;
- our reliance on others to provide us with mission critical hardware and software;
- our ability to avoid unanticipated network downtime;
- our failure to maintain and upgrade our network;
- our failure to retain our key employees;
- competition from other companies in our industry and our ability to retain or increase our market share;
- the anticipated growth of the telecommunications, Internet access and cable television industries in Spain;
- the effect of changes in the regulatory environment on the telecommunications and cable television industries in Spain;
- restrictions and limitations on our activities contained in the agreements governing our debt;
- our ability to access the financial markets in order to refinance our debt; and
- general economic conditions and business condition in the markets served by us.

Consequently, our current business 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 Cableuropa," and "Business" for a more complete discussion of the factors that could affect our future performance and the industry in which we

operate.

We currently file periodic reports with the SEC in accordance with the requirements of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), about our business that are publicly available. In addition, we are currently, and upon listing of the Notes on the Luxembourg Stock Exchange, we will continue to be subject to the ongoing reporting requirements of the Luxembourg Stock Exchange.

Upon redemption, repurchase or maturity of all of our Existing Notes, we will no longer be subject to or required to file periodic reports under the Exchange Act.

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," "we," "us" and "our" are to Cableuropa, S.A.U. and its subsidiaries. References to the "Issuer" are to ONO Finance Plc, the issuer of the Notes. References to "GCO" are to Grupo Corporativo ONO, S.A., our parent company.

Financial Information

We maintain our accounting records and prepare our statutory accounts in accordance with Spanish Generally Accepted Accounting Principles ("Spanish GAAP"). Our audited consolidated financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003, and unless otherwise indicated, other financial information in this offering memorandum have been prepared in accordance with Spanish GAAP, which differs in certain significant respects from U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). For a discussion of the most significant differences between Spanish GAAP and U.S. GAAP as they relate to us and reconciliations of net income and shareholders' equity, see note 29 to our audited consolidated financial statements.

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. References to "U.S. dollars," "USD," "dollars," "U.S.\$" or "\$" are to United States dollars, the lawful currency of the United States of America. References to "pounds," "pounds sterling" or "£" are to pounds sterling, the lawful currency of the United Kingdom.

Non-GAAP Financial Measures

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

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

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

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

Because of these limitations, EBITDA and annualized EBITDA should not be considered as measures of discretionary cash available to

us to invest in the growth of our business. We compensate for these limitations by relying primarily on our Spanish GAAP results and using EBITDA measures only supplementally. See "Summary Historical Consolidated and Pro Forma Financial Information and Operating Data of Cableuropa" and our consolidated financial statements.

Rounding

Certain numerical figures included in this offering memorandum have been rounded. Therefore, discrepancies in tables between totals and the sums of the amounts listed may occur due to such rounding.

Total Homes and Businesses Data

Total homes for each of our franchise areas are derived from the advances of the 2001 Spanish national census published by the National Statistics Institute of Spain (*Instituto Nacional de Estadística*, or "INE"). Total businesses for each of our franchise areas are derived from the 2003 businesses central directory which is also published by INE. Although we accept responsibility for the accurate extraction of such data, we accept no further responsibility in respect of such data.

Certain Operational Definitions

In this 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 telephony, Internet and cable television services provided to customers that are directly connected to our network in any quarter 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. In this offering memorandum, with respect to any quarter, ARPU presented is the monthly ARPU for such quarter, and with respect to any year, ARPU presented is the monthly ARPU for the fourth quarter only.

"Churn" means the percentage obtained by dividing the number of customers who cease to receive any of our services (either voluntarily or involuntarily) in any quarter 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. In this offering memorandum, with respect to any quarter, churn presented is churn as calculated for such quarter, and with respect to any year, churn presented is churn for the fourth quarter of such year, multiplied by four.

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

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

"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.

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

OFFERING MEMORANDUM SUMMARY

The following summary highlights selected information from this offering memorandum. It is not complete and does not contain all of the information that you should consider before investing in the Notes. Before you decide to invest in the Notes, you should read the entire offering memorandum carefully, including the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa" and our audited consolidated financial statements.

Our Business

Overview

We are a leading provider of integrated telephony, broadband Internet, and cable television services to residential and business customers in Spain. We commenced operations in 1998 and, since that time, have pursued a strategy of rapid penetration generating multiple revenue streams to grow our business. As of December 31, 2003, we had 581,345 residential customers and 13,133 primarily small and medium-sized business customers. During the year ended December 31, 2003, we generated revenue of €358.6 million and EBITDA of €102.1 million, resulting in an EBITDA margin of 28.5%. During the nine months ended September 30, 2003, we generated revenue of €257.5 million and EBITDA of €67.9 million, resulting in an EBITDA margin of 26.4%. During the three months ended December 31, 2003, we generated revenue of €101.1 million and EBITDA of € 34.2 million, resulting in an EBITDA margin of 33.8%.

Our 862 megahertz hybrid fiber coaxial network provides a high speed, high capacity, two-way communications pathway with direct access to our customers. As of December 31, 2003 our backbone network extended 6,362 route kilometers and our local networks extended 6,992 route kilometers, passing over 2.0 million homes. Our current addressable market is 5.6 million homes and 0.7 million businesses, representing approximately 27% of the 20.8 million homes and 25% of the 2.8 million businesses in Spain. We believe our franchise areas, especially those in our Mediterranean cluster, are growing rapidly both in the number of homes constructed each year and in gross domestic product per capita. We are continuing to expand our network in areas with attractive revenue potential.

The following table includes information regarding the build-out and reach of our network:

	<u>As at December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Infrastructure:					
Local access network (route kilometers)	5,135	6,279	6,992	22.3	11.4
Backbone network (route kilometers)	5,712	6,263	6,362	9.6	1.6
Cities with service.....	60	81	98	35.0	21.0
Homes passed	1,399,514	1,760,744	2,003,233	25.8	13.8
Homes released to marketing.....	1,111,158	1,469,061	1,743,266	32.2	18.7
Percentage of homes passed	79.4%	83.4%	87.0%	—	—

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

- *Residential Telephony.* We provide local, national and international telephony services to 544,271 customers, representing 31.2% penetration in our franchise areas as of December 31, 2003. In 2003, our residential telephony revenues were €184.0 million. ARPU for our residential telephony services for the fourth quarter of 2003 was €31.4.
- *Residential Internet.* We are a leading provider of residential broadband Internet services in our franchise areas. Our broadband Internet customer base grew by approximately 59% in 2003, resulting in 186,447 broadband Internet customers and representing 10.7% penetration as of December 31, 2003. In 2003, our total Internet revenues were €62.3 million. ARPU for our total Internet services for the fourth quarter of 2003 was €32.7.
- *Cable Television.* We are a leading provider of pay television services in Spain with 339,378 customers, representing 19.4% penetration as of December 31, 2003. We offer a wide selection of digital and analog cable television programming from basic to premium packages. Each of our programming packages also provides easy access to our pay-per-view services. In 2003, our cable television revenues were € 83.0 million. ARPU for our cable television services for the fourth quarter of 2003 was €23.1.
- *Business Services.* We provide voice and data telecommunication services principally to small and medium sized enterprises, although our business customers also include several larger corporate clients and public institutions. As of December 31, 2003 we had 13,133 business customers. The number of our business customers increased by approximately 52% during 2003. In 2003, our business services revenues were €29.3 million. ARPU for our business services for the fourth quarter of 2003 was €229.

Key Strengths

We believe that our competitive strengths will enable us to benefit from the substantial demand for integrated communications services in our franchise areas. Our competitive strengths include:

- *Proven ability to acquire subscribers.* As a customer focused organization with an effective marketing strategy, we have

achieved rapid growth of customers and penetration. As of December 31, 2003, we had achieved an overall customer penetration rate of 33.3%. Our experience shows that penetration rates have continued to increase in franchise areas where the build-out is substantially complete. This is highlighted by the fact that our penetration rate has risen to over 40% in areas, such as Cádiz and Albacete, where we have marketed our services for more than four years.

- *Ability to provide bundled services.* We currently provide a variety of bundled service offerings in order to maximise revenues from each of our customers. Our bundled services are comprised of a combination of some or all of our services, offering our customers the convenience of having a single provider for their communication, entertainment, and information needs. By offering bundled services, we can price our services more aggressively than individual services offered by our competitors. We believe this results in higher customer loyalty and increased penetration. As of December 31, 2003, 68% of our residential customers were purchasing bundled services, of which 26% were subscribing to a combination of all three of our services. At that date we had achieved penetration rates of 31.2%, 11.4% and 19.4% for residential telephony, Internet and cable television services, respectively, resulting in RGUs per residential customer of 1.86.
- *Technologically advanced broadband network.* Our 862 megahertz network provides a high speed, high capacity two-way communications pathway with direct access to the customer. This allows us to offer multiple services and will allow us to deliver new broadband services, such as interactive digital television services and video-on-demand with limited additional cost.
- *Ability to control costs.* We believe that our ability to control costs is an important element of both our operating and financial performance. We believe that the level of capital expenditure necessary to make our networks accessible to each additional home passed in Spain is significantly lower than that of many comparable European companies during a similar stage of their development. This is primarily due to the high urban population density in Spain; our ability to build portions of our network above ground; and our ability to efficiently obtain local access and rights of way permits from local authorities. To further control and reduce our operating costs, we focus on streamlining our business processes, renegotiating supplier contracts and the outsourcing of certain functions.
- *Highly-skilled management team.* Our management team has extensive experience in managing telecommunications and media companies in Spain, other countries in Europe, the United States and Canada. Eugenio Galdón, the founder of Cableuropa, was instrumental in the liberalization of the Spanish telecommunications and cable television markets and has managed several of Spain's largest media companies. Richard Alden, our Chief Executive Officer, joined us in 1998 and has extensive experience with cable telecommunications companies in the United Kingdom and the United States.
- *Strong shareholder support.* Our shareholders provide us with a strong financial commitment and local and international perspectives. Since we commenced operations in 1998, our shareholders have collectively contributed approximately €940 million (including the €98.5 million loan to Cableuropa from GCO, which will be converted into common stock of Cableuropa). Our shareholders also contribute Spanish market understanding, financial expertise, and important relationships with regulators, governmental authorities, suppliers, and customers. Our shareholders include Banco Santander Central Hispano, Bank of America Corporation, Capital Communications CDPQ, General Electric, Grupo Ferrovial and Grupo Multitel.
- *Strong brand recognition.* A key element of our marketing strategy is capitalizing on the fact that ONO is a well-recognized brand in our areas of operation and in Spain. In 2002, prompted and unprompted brand awareness of ONO in the main cities in which we offer service was 100% and 89%, respectively.

Our Strategy

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

- *Increasing cash flow generation and maximizing our return on capital employed;* through the following strategies: *Increasing Penetration.* We believe that the acquisition of new customers in our franchise areas is critical to the success of our business plan. Our strategy is to increase penetration in our franchise areas by offering bundled services to attract new customers by providing them with a single solution to their communication, entertainment and information needs at competitive prices. In key cities where we have marketed for more than four years, such as Cádiz and Albacete, we have already achieved penetration rates in excess of 40%. We believe that this is due to our continued marketing efforts within our franchise areas following the substantial build-out of the relevant network, and illustrates our belief that there is significant customer growth potential within our existing base of homes released to marketing. *Cross-Selling and Up-Selling to Our Existing Customer Base.* We intend to

use our existing customer relationships to sell additional products and services to our customers or migrate them to higher value services, which we refer to as "up-selling." In particular, we intend to encourage our customers to subscribe for additional services by offering bundled services at prices that are lower than prices for the same services provided by our competitors or by us on an individual basis. In addition, we believe that providing existing customers with a variety of new and enhanced services with tiered pricing options encourages our customers to take more than one of our services. *Leveraging Our Network to Provide Business Services.* Our strategy is to grow our customer base among small and medium sized businesses within our franchise areas by capitalizing on our technologically advanced network and success in marketing bundled services. During 2003, we introduced the Oficina ONO product that offers a combination of telephony and broadband Internet services to our business customers. In addition, we are selectively increasing the number of larger corporate business service customers within our franchise areas by offering tailored voice and data solutions. We have recently been awarded contracts to provide voice and data services for the public sector including the City Council of Valencia, the third largest city in Spain, and the Authority of the Island of Mallorca.

- *Continued improvement of our financial structure.* Our management and shareholders are committed to ensuring that we have an appropriate capital structure, taking into account available growth opportunities. We focus on growing our EBITDA at a faster rate than our use of additional debt, thereby reducing our total debt to EBITDA leverage ratio. We will not however simply rely on growing our EBITDA to improve our financial profile. We will also seek to carry out a series of financial transactions, of which the current Refinancing Transactions are examples, with the goal of reducing our cost of debt, extending our debt maturities and improving financial flexibility.

The Refinancing Transactions

The offering of the Notes is part of a series of transactions (collectively referred to as the "Refinancing Transactions"). The Refinancing Transactions consist of:

- The offering of the Notes;
- ONO Finance's all cash tender offer (the "Tender Offer") for (i) the dollar and euro denominated 13% Senior Notes due 2009 (the "2009 Notes") and (ii) the dollar and euro denominated 14% Senior Notes due 2011 (the "2011 Notes") issued by ONO Finance; and
- To the extent less than all the 2009 Notes are tendered in the Tender Offer, the purchase of all outstanding 2009 Notes on the open market or otherwise. The indenture governing the 2009 Notes provides that they may be redeemed at any time on or after May 1, 2004 at a price of 1,065.00 per \$1,000 or €1,000 principal amount, as the case may be.

ONO Finance announced the Tender Offer on April 16, 2004. During the Tender Offer, a tender offer with respect to its euro denominated 14% Senior Notes due 2010 (the "2010 Notes" and together with the 2009 Notes and the 2011 Notes, the "Existing Notes") was terminated. Under the terms of the Tender Offer, ONO Finance will purchase 2009 Notes and 2011 Notes at an initial purchase price per \$1,000 or €1,000 principal amount, as the case may be, of: (i) 1,068.75 for the 2009 Notes, and (ii) 1,160.00 for the 2011 Notes. The purchase price includes a premium per \$1,000 or €1,000 principal amount of tendered 2009 Notes and 2011 Notes, as the case may be, of 30.00 for the 2009 Notes and 50.00 for the 2011 Notes. The premium will be paid to holders of 2009 Notes and euro denominated 2011 Notes who have validly tendered and not withdrawn their Notes on or prior to April 29, 2004 (the "Early Tender Date") and to holders of dollar denominated 2011 Notes who have validly tendered and not withdrawn their Notes on or prior to May 3, 2004.

In conjunction with the Tender Offer, ONO Finance sought the consent of holders of the 2009 Notes and 2011 Notes (the "Consent Solicitation") to certain amendments to the indentures governing the 2009 Notes and 2011 Notes (the "Existing Indentures"). ONO Finance has received the consent of holders of the 2009 Notes and the euro denominated 2011 Notes to certain amendments to the Indentures governing the 2009 Notes and the euro denominated 2011 Notes. These amendments, if and when effective, will eliminate substantially all of the restrictive covenants, certain events of default and certain additional covenants and rights of the holders contained in the Existing Indentures governing the 2009 Notes and the euro denominated 2011 Notes. Any of the 2009 Notes and the euro denominated 2011 Notes tendered in the Tender Offer were deemed to constitute the consent of the holder to the proposed amendments to the relevant Existing Indentures. The Existing Indentures provide that the consent of at least a majority of the principal amount outstanding is necessary to approve the proposed amendments. Thus, since less than a majority of the aggregate principal amount outstanding of the dollar denominated 2011 Notes consented to the proposed amendments, the relevant Indenture governing the dollar denominated 2011 Notes will not be amended and will continue in effect following the Tender Offer and Consent Solicitation. In certain circumstances, the covenants under the Indenture governing the dollar denominated 2011 Notes may be more restrictive than the covenants contained in the indentures governing the Notes offered hereby (the "Indentures").

The Tender Offer is conditional upon the completion of this offering and certain other conditions. The purchase of 2009 Notes and 2011

Notes tendered in the Tender Offer will be financed from the proceeds of this offering. See "Use of Proceeds."

Summary Corporate and Financial Structure

The following table sets forth a summary of our corporate and financial structure as of December 31, 2003, assuming the successful completion of the Refinancing Transactions.

-
- (1) Grupo Corporativo ONO, S.A. ("GCO") is our ultimate corporate parent. GCO has informed us that after completion of this offering it will establish a new subsidiary ("Holdco") to hold all of the outstanding shares of Cableuropa. Under the terms of the Indentures, Holdco will accede to the Indentures and will provide a full and unconditional guarantee (the "Parent Guarantee") that will rank senior in right of payment to any and all of Holdco's existing and future indebtedness that is subordinated in right of payment to the Parent Guarantee. The Parent Guarantee will be structurally subordinated to all of the existing and future indebtedness of the Parent Guarantor. See "Description of the Notes—Ranking of the Notes and the Note Guarantees."
 - (2) On February 10, 2004, GCO acquired 61.0% of Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A. ("Retecal"). We intend to integrate Retecal and its network into our business and operations in stages. See "Risk Factors—Risks Relating to our Business—The difficulties of integrating Retecal and its network into our business and operations could impede our future growth and adversely affect the operation of our business." For more information about Retecal, see "—Recent Developments—Acquisition of Retecal by GCO."
 - (3) Each of Cableuropa, Valencia de Cable, S.A. ("Valencia"), Mediterránea Norte Sistemas de Cable, S.A. ("Valencia North"), Mediterránea Sur Sistemas de Cable, S.A. ("Valencia South") and Región de Murcia de Cable, S.A. ("Murcia") are guarantors of the Existing Notes and subsidiary guarantors of the Notes. The terms of the guarantees of the Existing Notes and the subsidiary guarantees of the Notes are currently identical. However, the Indentures provide that, upon a Repayment Event, the terms of the subsidiary guarantees of the Notes will be subject to additional subordination features, including an enforcement standstill as well as provisions which allow the subsidiary guarantees to be released in certain circumstances, including an enforcement by the lenders under our Senior Bank Facility of their security over the capital stock of Cableuropa. See "Risk Factors—Risks Relating to the Notes—The subsidiary guarantees are subordinated to all of our existing and future senior debt and upon the occurrence of a Repayment Event will be subject to limitations on the ability of Note holders to enforce their rights under the subsidiary guarantees," and "Description of the Notes—Subordination of the Subsidiary Guarantees Upon a Repayment Event."
 - (4) On August 8, 2001, the ONO Group, as guarantors and borrowers, entered into an agreement with a series of international banks, as arrangers of a senior bank facility in an aggregate principal amount of €800 million (the "Senior Bank Facility"). On February 13, 2003, our Senior Bank Facility was amended to reduce the total principal amount available to €750 million. As of December 31, 2003, we had drawn down €515 million under our Senior Bank Facility.
 - (5) The Issuer will lend the gross proceeds of the Floating Rate Notes to Cableuropa and the other Subsidiary Guarantors pursuant to a Floating Rate Note Proceeds Loan in a principal amount equal to the aggregate principal amount of the Floating Rate Notes offered hereby. The Issuer will also lend the gross proceeds of the Fixed Rate Notes to Cableuropa and the other Subsidiary Guarantors pursuant to a Fixed Rate Note Proceeds Loan in a principal amount equal to the aggregate principal amount of the Fixed Rate Notes offered hereby. The Floating Rate Note Proceeds Loan and the Fixed Rate Note Proceeds Loan are collectively referred to herein as the Notes Proceeds Loans. The Indentures provide that, upon the occurrence of all of the following: the repayment of the Existing Notes, the establishment of Holdco and the grant by Holdco of the Parent Guarantee (collectively, a "Repayment Event"), the Notes Proceeds Loans will be pledged to the lenders under our Senior Bank Facility as security for our obligations under our Senior Bank Facility. The Notes Proceeds Loans will also be assignable to a third party in the event of an enforcement by the lenders under our Senior Bank Facility of a security interest thereunder and the release of Cableuropa from its guarantee of the Notes. See "Description of the Notes—Ranking of the Notes and the Notes Guarantees."
 - (6) The aggregate principal amount of Existing Notes outstanding as of December 31, 2003 was €410.4 million. ONO Finance announced an all cash tender offer for the 2009 Notes and the 2011 Notes (the "Tender Offer"). The payment for the Existing Notes tendered in the Tender Offer will be financed from the proceeds of the Notes offered hereby. See "—The Refinancing Transactions" and "Use of Proceeds."
 - (7) Cableuropa and the other Subsidiary Guarantors will use the proceeds of the Notes Proceeds Loans to repay the multi-borrower credit facilities (the "Multi-Borrower Credit Facilities") in an amount equal to the aggregate principal amount outstanding of the Existing Notes accepted by the Issuer in the Tender Offer. See "—The Refinancing Transactions" and "Use of Proceeds."

Recent Developments

Preliminary Results of Operations and Selected Operational Data

On May 6, 2004, we announced unaudited preliminary results of operations and selected operational data for the three months ended March 31, 2004. The information contained in the announcement was limited, incomplete and may be inconsistent with information that will appear in our final announcement of our results of operations for the same period that we expect to publish on or about May 26, 2004. Our unaudited preliminary results of operations and selected operational data for the three months ended March 31, 2004 are not necessarily indicative of our results of operations for the year ended December 31, 2004. See "Risk Factors—Forward Looking Statements."

The summary of the unaudited preliminary results of operations and selected operational data for the three months ended March 31, 2004 is set forth below.

	<u>As of and for the three months</u> <u>ended</u>		<u>Percentage</u> <u>change</u>
	<u>March 31,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>	
	(euro in millions except for ratios and percentages)		
Financial Data:			
Revenues	104.9	101.1	3.8
EBITDA ⁽¹⁾	37.7	34.2	10.2
EBITDA margin ⁽²⁾	35.9%	33.8%	
Quarter Annualized EBITDA ⁽³⁾	150.8	136.8	10.2
Capital expenditures ⁽⁴⁾	42.2	74.2	(43.1)
Total Debt:			
Senior Bank Facility.....	545.0	515.0	
Multi-Borrower Credit Facilities ⁽⁵⁾	415.0	410.4	
GCO Loan ⁽⁶⁾	98.5	98.5	
Other debt.....	54.6	41.8	
Total Debt ⁽⁷⁾	1,113.1	1,065.7	4.4
	<u>As of</u> <u>March 31,</u> <u>2004</u>	<u>As of</u> <u>December 31,</u> <u>2003</u>	<u>Percentage</u> <u>change</u>
Residential Operating Data:			
Customers	604,032	581,345	3.9
ARPU (euro) ⁽⁸⁾	54.0	54.1	(0.2)
Churn ⁽⁹⁾	12.7%	13.7%	
Infrastructure:			
Homes passed	2,056,700	2,003,233	2.7

(1) EBITDA represents earnings before interest, taxes, depreciation and amortization, extraordinary and other non-cash items and minority interests. EBITDA is not a GAAP measure in either Spain or in the United States and should not be considered in isolation or as a substitute for, or as an alternative to, net income, operating income, cash flow from operations, other cash flow data or any other performance measures prepared in accordance with Spanish GAAP or U.S. GAAP. For additional information regarding the use of EBITDA, see "Presentation of Financial and Other Data—Non-GAAP Financial Measures."

(2) EBITDA margin is calculated by dividing EBITDA for a particular period by the total revenues for that period.

- (3) Quarter annualized EBITDA is EBITDA for the three months ended March 31, 2004 and December 31, 2003, respectively, multiplied by four.
- (4) Capital expenditures refer to purchases of property and equipment. Capital expenditures for the year ended December 31, 2003 were € 198.6 million. Capital expenditures for the nine months ended September 30, 2003 were €124.4 million.
- (5) The Multi-Borrower Credit Facilities were used by the Issuer to lend the proceeds of the Existing Notes to Cableuropa and certain of its subsidiaries. Cableuropa and the other Subsidiary Guarantors will use the proceeds of the Notes Proceeds Loans to repay the Multi-Borrower Credit Facilities in an amount equal to the aggregate principal amount outstanding of Existing Notes repurchased or redeemed. See "—The Refinancing Transactions" and "Use of Proceeds."
- (6) The GCO Loan bears interest at a rate of 7.5% per annum and matures on March 1, 2011. GCO has confirmed that within one month following completion of the Refinancing Transactions, Cableuropa will take all necessary actions and make all necessary submissions, including submissions to the Mercantile Registry, to convert the GCO Loan as well as €300 million aggregate principal amount of participative loans (participative loans are subordinated loans from GCO to Cableuropa that do not currently bear interest) into common stock of Cableuropa.
- (7) Total debt is financial short-term debt and long-term debt. Total debt does not include participative loans or accrued interest. As of December 31, 2003 and March 31, 2004, total debt included the € 98.5 million GCO Loan.
- (8) ARPU is the monthly ARPU for the quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."
- (9) Churn is a measure of the number of customers who stop using our services. For a definition of churn see "Presentation of Financial and Other Data—Certain Operational Definitions."

Acquisition of Retecal by GCO

On February 10, 2004, GCO, our corporate parent, announced that it had acquired 61.0% of Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A. ("Retecal"). Hidrocantábrico, S.A. holds 35.0% and other minority shareholders hold the remaining interest in Retecal. Retecal has the cable telecommunications franchise for the region of Castilla y León (north-west of Madrid). On March 29, 2004 a general meeting of the shareholders of Retecal approved certain amendments to its Memorandum and Articles of Association, including amendments regarding the composition of Retecal's board of directors. As a result, GCO has effective control of the board of directors of Retecal.

As of December 31, 2003, Retecal had approximately 100,000 residential and business customers and its network passed approximately 500,000 homes. During the year ended December 31, 2003 Retecal generated total revenues of €51.1 million, total operating expenses of €67.5 million and a net loss of €25.4 million. A summary of the results of operations and financial condition of Retecal, which has been derived from its audited unconsolidated financial statements, is set forth below. A previously consolidated subsidiary of Retecal, a telecommunications consulting business, was sold in connection with the acquisition of Retecal by GCO.

	Year ended December 31,		
	2001	2002	2003
	(euro in millions)		
Summary Statement of Operations Data:			
Total revenues	26.9	40.8	51.1
Expenses:			
Operating expenses	32.8	40.5	46.9
Costs capitalized	(5.1)	(2.8)	(1.8)
Depreciation and amortization	11.3	16.8	22.4
Total operating expenses	39.0	54.5	67.5
Operating loss	(12.1)	(13.7)	(16.4)
Interest and other financial expense, net	(5.6)	(5.9)	(5.7)
Extraordinary expense, net	(0.1)	(0.9)	(3.2)
Loss before tax	(17.8)	(20.5)	(25.4)
Net loss	(12.0)	(20.5)	(25.4)

Summary Balance Sheet Data:

Cash	4.3	0.7	6.2
Tangible assets, net.....	215.2	233.0	231.8
Total assets	282.9	287.0	290.4
Total debt ⁽¹⁾	108.0	117.6	146.1
Common stock ⁽²⁾	101.6	135.2	161.7
Shareholders' net equity.....	77.7	90.9	92.0

(1) Total debt includes short and long term debt with credit entities.

(2) Common stock of Retecal reflects equity contributed to Retecal.

Retecal is not currently a part of the ONO Group. However, we intend to integrate Retecal and its network into our business and operations in stages. In the first stage, we intend to enter into shared service agreements with Retecal over the short term in order to capture economies of scale and aggregate buying power. Thereafter, and subject to the terms of the Indentures and the Existing Indentures, we intend to fully integrate Retecal and its network into our business and operations although this integration will not take place earlier than during the fourth quarter of 2004. The timing of our proposed integration of Retecal into our business and operations, and whether such integration takes place at all, is dependent on a number of factors, some of which are beyond our control. We are currently conducting an assessment of Retecal's network and operations, including conducting limited upgrades to ensure that Retecal's network can support our digital television services. Those activities may take a significant amount of time. See "Risk Factors—Risks Relating to our Business—The difficulties of integrating Retecal and its network into our business and operations could impede our future growth and adversely affect the operation of our business." The integration of Retecal is also dependent upon our ability to successfully refinance our Senior Bank Facility to permit the integration of Retecal into the ONO Group on terms that are acceptable to us. However, our ability to obtain financing, either through raising new capital or refinancing existing debt, depends on a number of factors, including the liquidity of the capital markets, and we may not be able to raise new capital or refinance our existing debt on satisfactory terms, or at all. See "Risk Factors—Risks Relating to our Financial Profile—We may not generate sufficient cash flow to fulfill our debt obligations, including payments related to the Multi-Borrower Credit Facilities and the Notes Proceeds Loans." The integration of Retecal into the ONO Group will initially increase the debt levels in the ONO Group. However, we will continue to focus on growing our EBITDA at a faster rate than our use of additional debt, thereby seeking to reduce our total debt to EBITDA leverage ratio.

Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa

On February 13, 2003, Cableuropa entered into a loan agreement with GCO in an aggregate principal amount of €98.5 million (the "GCO Loan"). The GCO Loan bears interest at a rate of 7.5% per annum and matures on March 1, 2011. GCO has confirmed that within one month following completion of the Refinancing Transactions, Cableuropa will take all necessary actions and make all necessary submissions, including submissions to the Mercantile Registry, to convert the GCO Loan as well as €300 million aggregate principal amount of participative loans (subordinated loans from GCO to Cableuropa that do not currently bear interest) into common stock of Cableuropa. See "Description of the Notes—Certain Covenants—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."

The Offering

The following summary contains basic information about the Notes. It does not contain all the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this document entitled "Description of the Notes," and particularly to those sub-sections to which we have referred you.

Issuer	ONO Finance Plc.
Notes Offered.....	€180 million aggregate principal amount of 10.5% Senior Notes due 2014 (the "Fixed Rate Notes"); and €100 million aggregate principal amount of Floating Rate Senior Notes due 2014 (the "Floating Rate Notes" and, together with the Fixed Rate Notes, the "Notes").
Maturity Date.....	The Notes will mature on May 15, 2014.
Interest Rate.....	For the Floating Rate Notes: Three-month EURIBOR plus 8.5% per year. For the Fixed Rate Notes: 10.5% per year.
Interest Payment Dates.....	For the Floating Rate Notes: Each February 15, May 15, August 15 and November 15, beginning August 15, 2004.

For the Fixed Rate Notes: Each May 15 and November 15, beginning November 15, 2004. Interest will accrue from the issue date of the Notes.

The Notes will initially be guaranteed on a senior subordinated basis by Cableuropa, S.A.U., Región de Murcia Cable, S.A., Valencia de Cable, S.A., Mediterránea Norte Sistemas de Cable, S.A., and Mediterránea Sur Sistemas de Cable, S.A. (collectively, the "Subsidiary Guarantors").

Subsidiary Guarantors

A subsidiary of GCO to be established after the issue date as a holding company of Cableuropa that will guarantee the Notes on a senior basis.

Parent Guarantor

The later of the establishment of the Parent Guarantor, the grant by the Parent Guarantor of the Parent Guarantee and repayment of the Existing Notes.

Repayment Event

Ranking

The Notes

The Notes will be the Issuer's general senior unsecured obligations and will be:

- senior in right of payment to any and all of the Issuer's future debt that is subordinated in right of
- senior in right of payment to the Existing Equity Value Certificates;
- equal in right of payment with all of the Issuer's existing and future unsecured debt that is not notes, including the Existing Notes; and
- effectively subordinated in right of payment to all future secured debt of the Issuer to the extent of

The Subsidiary Guarantors' Guarantees

Each Subsidiary Guarantor's guarantee will be a general unsecured obligation of such Subsidiary Guarantor and will be:

- subordinated in right of payment to the payment in full in cash of all of such Subsidiary debt, including its obligations under the Senior Bank Facility;
- equal in right of payment with any and all of such Subsidiary Guarantor's existing and future and is not senior in right of payment of its subsidiary guarantee; and
- senior in right of payment to any and all of such Subsidiary Guarantor's existing and future debt to its guarantee.

The Parent Guarantor's Guarantee

Upon a Repayment Event the Parent Guarantor will provide a full and unconditional guarantee of the Notes. The Parent Guarantor's guarantee will be the Parent Guarantor's general unsecured obligation and will be:

- senior in right of payment to any and all of the Parent Guarantor's existing and future debt that is guarantee;
- equal in right of payment with all of the Parent Guarantor's existing and future unsecured debt to its guarantee;
- effectively subordinated in right of payment to all existing and future secured debt of the Parent assets securing such debt; and
- structurally subordinated in right of payment to all existing and future debt of the Parent

As of December 31, 2003, on a pro forma basis, after giving effect to the Refinancing Transactions as described under "—The Refinancing Transactions," and "Use of Proceeds" and after excluding intercompany balances and guarantees the Issuer would have had €431.1 million principal amount of debt on an unconsolidated basis (including the Notes).

As of December 31, 2003, on a pro forma basis after giving effect to the Refinancing Transactions and the conversion of the GCO Loan into common stock of Cableuropa as described under "Use of Proceeds," "—The Refinancing Transactions" and "—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa," the Subsidiary Guarantors would have had consolidated outstanding debt of €1,005.7 million (including the Senior Bank Facility).

Subordination of the Subsidiary Guarantees
Prior to a Repayment Event

- Prior to a Repayment Event, a Subsidiary Guarantor may not make any payment on its subsidiary guarantee, or repurchase, redeem or otherwise retire any Notes, if:
- any amount (including principal, premium or interest) arising under or in respect of any senior debt (including at maturity); or
 - any other default (however described) on senior debt occurs and the maturity of such senior debt demand, in each case, in accordance with its terms unless, in either case, (i) the default has been rescinded in writing by the representative of such senior debt; or (ii) such senior debt has

ver, that such Subsidiary Guarantor may pay its subsidiary guarantee without regard to the foregoing
stee receive written notice approving such payment from the representative of such issue of senior

During the continuance of any default (other than a default described in the preceding sentence) with respect to any designated senior debt pursuant to which the maturity thereof may be accelerated or declared to be payable on demand, or on the expiration of any applicable grace period without further notice (except any notice required to affect the acceleration), a Subsidiary Guarantor may not pay its subsidiary guarantee for a period (a "Payment Blockage Period") commencing upon the receipt by such Subsidiary Guarantor and the trustee of written notice of such default from the representative of the holders of such designated senior debt specifying an election to effect a Payment Blockage Period (a "Payment Blockage Notice") and ending 179 days thereafter (unless such Payment Blockage Period is earlier terminated);

- by written notice to the trustee and such Subsidiary Guarantor from the representative that gave
- because the representative that gave such Payment Blockage Notice gives written notice to the at such default is no longer continuing or subsisting; or
- because such designated senior debt has been repaid in full in cash).

See "Description of the Notes—Subordination of the Subsidiary Guarantees Prior to a Repayment Event."

Subordination of the Subsidiary Guarantees
Upon a Repayment Event

Each of the Indentures will prohibit the holders of the Notes and the trustee under the Indentures, upon and after a Repayment Event, from taking any enforcement action against a Subsidiary Guarantor without the prior consent of the applicable representative unless:

- certain insolvency or reorganization events have occurred in relation to such Subsidiary
- the holders of designated senior debt have taken any enforcement action in relation to such
- a default has occurred under the Notes and (i) the holders of the Notes or the trustee has notified dstill period of not less than 179 days has passed from the date the applicable representative was d of the standstill period, the default is continuing and has not been waived by the holders of the

Each of the Indentures will also provide that, upon and after a Repayment Event, a Subsidiary Guarantor may not make any payment in respect of its subsidiary guarantee (except in certain permitted junior securities or from the trust, if any, described under "Description of the Notes—Legal Defeasance or Covenant Defeasance of Indentures") if:

- a payment default on designated senior debt of such Subsidiary Guarantor has occurred and is period; or
- any other default occurs and is continuing on any designated senior debt of such Subsidiary ch designated senior debt to accelerate its maturity and the trustee receives a notice of such default (a the holders of such designated senior debt.

Payments on any such subsidiary guarantee may and will be resumed:

- in the case of a payment default, when such default is cured or waived; or
- in the case of a non-payment default, upon the earlier of the date on which such non-payment after the date on which the applicable Payment Blockage Notice is received, unless the maturity of elerated.

Not more than one Payment Blockage Notice with respect to the same event of default, any other events of default existing and known to the person giving such notice at the time of such notice, or any other events of default arising directly as a result of the occurrence which gave rise to the first-mentioned event of default, in each case in respect of the same issue of designated senior debt, may be given during any consecutive 360-day period unless such event of default or such other events of default have been cured or waived for a period of not less than 90 consecutive days.

Each Subsidiary Guarantor will automatically and unconditionally be released from all obligations under its subsidiary guarantee, and such subsidiary guarantee shall thereupon terminate and be discharged and be of no further force or effect, concurrently with any sale by way of enforcement by the senior lenders under the Senior Bank Facility of a security interest therein of (x) all of the Capital Stock of such Subsidiary Guarantor or any parent company of such Subsidiary Guarantor or (y) all or substantially all of the assets of such Subsidiary Guarantor, in each case so long as certain

Optional Redemption	<p>conditions in the Indentures are satisfied. See "Description of the Notes—Subordination of the Subsidiary Guarantees Upon a Repayment Event—Release of the Subsidiary Guarantees."</p> <p>The Issuer may redeem all or part of the Floating Rate Notes at any time on or after May 15, 2006 at the redemption prices described in "Description of the Notes—Optional Redemption—Floating Rate Notes," plus accrued and unpaid interest.</p> <p>In addition, at any time prior to May 15, 2006, the Issuer may redeem up to 35% of the Floating Rate Notes with the proceeds from certain public equity offerings at a redemption price equal to 100% of their principal amount plus a premium equal to the interest rate per annum on the Floating Rate Notes applicable on the date on which notice of redemption is given plus accrued and unpaid interest, if any. However, the Issuer may only make such redemptions if at least 65% of the aggregate principal amount of the Floating Rate Notes issued under the Floating Rate Note Indenture remains outstanding immediately after the occurrence of such redemption. Prior to May 15, 2006, to the extent that the Issuer redeems any Floating Rate Notes with the proceeds from certain public equity offerings, it shall also redeem Fixed Rate Notes on a pro-rata basis based on the aggregate principal amount of Floating Rate Notes and Fixed Rate Notes then outstanding.</p> <p>The Issuer may redeem all or part of the Fixed Rate Notes at any time on or after May 15, 2009 at the redemption prices described in the "Description of the Notes—Optional Redemption—Fixed Rate Notes," plus accrued and unpaid interest.</p> <p>In addition, at any time prior to May 15, 2007, the Issuer may redeem up to 35% of the Fixed Rate Notes with the proceeds from certain public equity offerings at a redemption price equal to 110.5% of their principal amount, plus accrued and unpaid interest, if any. However, the Issuer may only make such redemptions if at least 65% of the aggregate principal amount of the Fixed Rate Notes issued under the Fixed Rate Note Indenture remains outstanding immediately after the occurrence of such redemption. Prior to May 15, 2006, to the extent that the Issuer redeems any Fixed Rate Notes with the proceeds from certain public equity offerings, it shall also redeem Floating Rate Notes on a pro-rata basis based on the aggregate principal amount of Fixed Rate Notes and Floating Rate Notes then outstanding.</p> <p>Furthermore, at any time prior to May 15, 2009, the Issuer may also redeem all or part of the Fixed Rate Notes at a redemption price equal to 100% of the principal amount of the Fixed Rate Notes redeemed plus a "make-whole" premium, plus accrued and unpaid interest, if any.</p> <p>The Issuer may redeem all, but not less than all, of the Notes at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, if the Issuer, any note guarantor, or any surviving entity would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. For more information see "Description of the Notes—Optional Redemption—Optional Tax Redemption."</p>
Optional Tax Redemption	
Repurchase at the Option of Holders Upon a Change of Control	<p>If we experience an event treated as a "Change of Control" (as defined in "Description of the Notes"), each holder of Notes will have the right to require the Issuer to repurchase all or any part (equal to €1,000 or an integral multiple thereof) of such holder's Notes at a purchase price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest, if any, to the date of the purchase.</p>
Certain Covenants	<p>The Indentures governing the Notes will, among other things, limit our ability and the ability of our restricted subsidiaries to:</p> <ul style="list-style-type: none"> • pay dividends or make other distributions; • make certain investments or acquisitions; • engage in transactions with affiliates and other related parties; • merge or consolidate with other companies; • make capital expenditures; • sell or dispose of assets other than in the ordinary course of business; • incur additional debt; • create certain liens or enter into sale and lease back transactions; and • enter into unrelated businesses. <p>These covenants contain important exceptions, limitations and qualifications. For more details, see "Description of the Notes—Certain Covenants."</p> <p>The Issuer will use the gross proceeds of the offering of the Notes to make the Notes Proceeds Loans to Cableuropa and the other Subsidiary Guarantors. Cableuropa and the other Subsidiary Guarantors will each use the proceeds of the Notes Proceeds Loans to repay certain amounts under the Multi-Borrower Credit Facilities in the manner specified in "Use of Proceeds" and "—The</p>
Use of Proceeds.....	

	Refinancing Transactions."
Transfer Restrictions	We have not registered the Notes under the U.S. Securities Act. You may only offer or sell the Notes in a transaction exempt from or not subject to the registration requirements of the U.S. Securities Act. See "Plan of Distribution" and "Notice to Investors."
No Registration Rights	We have not agreed to register the Notes under the U.S. federal or state securities laws or under the securities laws of any other jurisdiction.
Trustee and Paying Agent.....	The Bank of New York.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Governing Law	New York law.

Risk Factors

Investing in the Notes involves substantial risks. You should consider carefully all the information in this offering memorandum and, in particular, you should evaluate the specific risk factors set forth in the "Risk Factors" section of this offering memorandum before investing in the Notes.

SUMMARY HISTORICAL CONSOLIDATED AND PRO FORMA FINANCIAL INFORMATION AND OPERATING DATA OF CABLEUROPA

The following summary historical consolidated financial information presented below under the caption summary income statement data and under the caption summary balance sheet data has been derived from our audited consolidated financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 which are included in this offering memorandum. The information in this table is only a summary and does not provide all of the information contained in our audited consolidated financial statements. We have also included various other financial data, including certain pro forma financial data as well as certain operating data that we believe may be useful to investors. You should read the following financial information and operating data together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa" and our audited consolidated financial statements and notes thereto included in this offering memorandum.

Our audited consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain significant respects from U.S. GAAP. You can find a description of the most significant differences between Spanish GAAP and U.S. GAAP relevant to us and reconciliations of net income and shareholders' equity in note 29 of the notes to our audited consolidated financial statements.

The pro forma and annualized information presented below are provided for illustrative purposes only, and do not purport to represent what our results of operations or financial condition would have been had certain transactions actually occurred on the date presented, or to project our results of operations or financial condition.

Summary Historical Consolidated Financial Information

	For the year ended December 31,		
	2001	2002	2003
	(euro in millions)		
Summary Income Statement Data:			
Revenues:			
Residential telephony.....	79.3	133.1	184.0
Residential Internet.....	18.1	39.1	62.3
Cable television.....	38.3	62.3	83.0
Business services.....	7.9	19.0	29.3
Total revenues.....	143.6	253.4	358.6
Expenses:			
Cost of services.....	74.3	85.7	105.6
Selling, general and administrative expenses.....	188.5	180.8	166.1
Costs capitalized.....	(61.8)	(28.9)	(15.2)
Restructuring and other related expenses.....	9.1	—	—
Broadcast rights amortization.....	4.5	5.7	4.2
Depreciation and amortization.....	80.8	98.3	102.5
Total operating expenses.....	295.4	341.6	363.2
Operating loss.....	(151.8)	(88.2)	(4.6)
Amortization of goodwill.....	(13.8)	(13.4)	(13.4)
Interest and other financial expense, net.....	(146.9)	(96.8)	(130.2)
Extraordinary income/(expense), net.....	(3.3)	(171.8)	298.2
Loss before tax and minority interests.....	(315.7)	(370.2)	150.0
Net profit/(loss).....	(216.9)	(194.6)	97.0

	As of December 31,	
	2002	2003
	(euro in millions)	
Summary Balance Sheet Data:		
Cash.....	1.3	1.3
Restricted cash ⁽¹⁾	39.1	—
Tangible assets, net.....	1,202.4	1,295.1
Total assets.....	2,259.3	2,123.3
Total debt ⁽²⁾	1,303.3	1,065.7
Participative loans ⁽³⁾	300.0	300.0
Common stock.....	484.7	484.7
Shareholders' equity.....	216.2	313.2

Other Financial Data

	<u>As of and for the year ended</u>		
	<u>December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(euro in millions, except percentages)		
Summary Other Data:			
EBITDA ⁽⁴⁾	(57.2)	15.8	102.1
EBITDA margin ⁽⁵⁾	—	6.2%	28.5%
Capital expenditures ⁽⁶⁾	(359.7)	(251.7)	(198.6)
Net cash provided/(used) by operating activities	(252.5)	(176.8)	49.7
Net cash used in investing activities	(372.1)	(256.6)	(195.0)
Net cash provided by financing activities	620.8	424.5	145.1

Pro Forma and Annualized Information

	<u>As of and for the</u>
	<u>year ended</u>
	<u>December 31,</u>
	<u>2003</u> (euro in
	millions, except
	for ratios)
Pro Forma and Annualized Information:	
Pro forma total debt ⁽⁷⁾	1,005.7
Pro forma interest expense ⁽⁸⁾	80.4
Fourth quarter annualized EBITDA ⁽⁹⁾	136.8
Ratio of pro forma total debt to fourth quarter annualized EBITDA.....	7.4x
Ratio of fourth quarter annualized EBITDA to pro forma interest expense	1.7x

Summary Operating Data

	<u>As of December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Infrastructure:			
Local access network (route kilometers)	5,135	6,279	6,992
Backbone network (route kilometers)	5,712	6,263	6,362
Homes passed	1,399,514	1,760,744	2,003,233
Homes released to marketing.....	1,111,158	1,469,061	1,743,266
% of homes passed.....	79.4%	83.4%	87.0%
Customers:			
Residential.....	333,997	480,296	581,345
Business	4,829	8,648	13,133
Residential RGUs:			
Telephony	308,056	448,926	544,271
Internet	86,119	141,622	199,066
Cable television	232,199	296,956	339,378
Total RGUs	626,374	887,504	1,082,715
Total RGUs/Customer.....	1.88	1.85	1.86
ARPU (in euro):			
Telephony	28.4	30.8	31.4
Internet	26.2	30.2	32.7

Cable television	18.0	21.2	23.1
Total residential customers.....	45.7	50.7	54.1
Business customers	278.0	205.0	229.0
Total Residential Penetration:			
Telephony.....	27.7%	30.6%	31.2%
Internet	7.7%	9.7%	11.4%
Cable television	20.9%	20.2%	19.4%
Total residential penetration.....	30.1%	32.7%	33.3%
Churn	12.9%	12.1%	13.7%

- (1) Restricted cash is U.S. government securities and European government securities that were purchased and pledged to secure interest payments on the Existing Notes through March 2003.
- (2) Total debt is financial short-term debt and long-term debt. Total debt does not include participative loans. In 2003, total debt included the €98.5 million GCO Loan. GCO has confirmed that Cableuropa will convert the GCO Loan into common stock of Cableuropa. See "—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa." Total debt does not include accrued interest expenses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa—Liquidity and Capital Resources."
- (3) Participative loans are subordinated loans from GCO to Cableuropa. The participative loans do not currently bear interest. GCO has confirmed that Cableuropa will convert the participative loans into common stock of Cableuropa. See "—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."
- (4) EBITDA represents earnings before interests, taxes, depreciation and amortization, extraordinary and other non-cash items and minority interests. EBITDA is not a GAAP measure in either Spain or in the United States and should not be considered in isolation or as a substitute for, or as an alternative to, net income, operating income, cash flow from operations, other cash flow data or any other performance measures prepared in accordance with Spanish GAAP or U.S. GAAP. For additional information regarding the use of EBITDA, see "Presentation of Financial and Other Data—Non-GAAP Financial Measures."

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(euro in millions)		
Consolidated net profit/(loss)	(216.9)	(194.6)	97.0
Loss attributed to minority interests.....	(1.7)	(0.8)	0.0
Income tax credits	(97.1)	(174.7)	53.0
Net extraordinary (income)/expense	3.3	171.8	(298.2)
Net financial expense	146.9	96.8	130.2
Amortization of goodwill.....	13.8	13.4	13.4
Depreciation and amortization	80.8	98.3	102.5
Broadcast rights amortization	4.5	5.7	4.2
Other non cash items.....	9.1	0.0	0.0
Total adjustments to reconcile net profit/(loss) and EBITDA	159.7	210.4	5.1
Total EBITDA.....	(57.2)	15.8	102.1

- (5) EBITDA margin is calculated by dividing EBITDA for a particular period by the total revenues for that period. EBITDA margin is omitted when negative.
- (6) Capital expenditures refers to purchases of property and equipment.
- (7) Pro forma total debt represents our total debt as at December 31, 2003 adjusted to reflect the Refinancing Transactions and the

conversion of the GCO Loan into common stock of Cableuropa as if those transactions had occurred on December 31, 2003. For the purpose of determining pro forma total debt we assume that the gross proceeds of this offering will be € 280 million and that \$116.9 million and €148.9 million aggregate principal amount outstanding of the Existing Notes were repurchased or redeemed in connection with the Refinancing Transactions. Accordingly, pro forma total debt is comprised of €515 million under our Senior Bank Facility, €280 million under the Notes Proceeds Loans, €169.0 million under Multi-Borrower Credit Facilities and €41.7 million of other debt outstanding.

- (8) Pro forma interest expense represents interest expense for the year ended December 31, 2003 adjusted to reflect the Refinancing Transactions and the conversion of the GCO Loan into common stock of Cableuropa as if these transactions had occurred on January 1, 2003. Pro forma interest expense is therefore calculated assuming the following pro forma debt balances were outstanding for the entire year ended December 31, 2003.

	<u>Average</u> <u>Interest</u> <u>Rate</u> (%)	<u>Pro Forma</u> <u>Debt</u> (euro in millions)	<u>Pro Forma</u> <u>Interest</u> <u>Expense</u>
Senior Bank Facility ^(a)	5.82	515.0	25.5
Multi-Borrower Credit Facilities ^(b)	14.00	169.0	23.7
Notes Proceeds Loans ^(c)	10.62	280	29.7
Other debt outstanding ^(a)	3.59	41.7	1.5

(a) The interest expense for the Senior Bank Facility and other debt outstanding is as actually incurred in 2003.

(b) Pro forma interest expense under the Multi-Borrower Credit Facilities assumes that (A) the Refinancing Transactions were completed on January 1, 2003 and that (i) all of the 2009 Notes were repurchased or redeemed and (ii) €103.3 million and \$24.8 million principal amount of outstanding 2011 Notes were tendered and purchased by the Issuer leaving €8.8 million and \$58.7 million principal amount, respectively, of the 2011 Notes outstanding and (B) the repayment of each of the Multi-Borrower Credit Facilities in an amount equal to the aggregate principal amount of the relevant Existing Notes purchased or redeemed in connection with the Refinancing Transactions. See "Use of Proceeds." The Multi-Borrower Credit Facilities pursuant to which ONO Finance lent the proceeds of the 2011 Notes to Cableuropa and its subsidiaries bear interest at 14% per annum.

(c) Pro forma interest expense under the Notes Proceeds Loans assumes that the Notes offered hereby were issued on January 1, 2003 and that (i) the gross proceeds of €100 million from the issuance of Floating Rate Notes were lent to Cableuropa and the other Subsidiary Guarantors pursuant to the Floating Rate Note Proceeds Loan bearing a rate of interest of EURIBOR plus 8.5% during the year and (ii) gross proceeds of € 180 million from the issuance of Fixed Rate Notes were lent to Cableuropa and the other Subsidiary Guarantors pursuant to the Fixed Rate Note Proceeds Loan at an interest rate of 10.5% per annum. The average 3-month EURIBOR for the year ended December 31, 2003 was 2.330125%.

- (9) Fourth quarter annualized EBITDA is EBITDA for the three months ended December 31, 2003, of €34.2 million, multiplied by four. EBITDA for the year ended December 31, 2003 was €102.1 million. EBITDA for the nine months ended September 30, 2003 was €67.9 million.

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 occur, 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

We may not generate sufficient cash flow to fulfill our debt obligations, including payments related to the Multi-Borrower Credit Facilities and the Notes Proceeds Loans. Our ability to make payments on our debt, including payments under the Senior Bank Facility, the Multi-Borrower Credit Facilities, the Notes Proceeds Loans and the guarantees, 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;
- our ability to use our carry-forward tax losses; and
- other legal, tax, litigation and regulatory factors affecting our business.

We have experienced negative cash flow since we commenced operations in 1998, and we expect to sustain negative cash flow at least until the end of 2005. We cannot assure you that our business will generate sufficient cash to fulfill our debt obligations or that future financing will be available to us on commercially reasonable terms or at all. To the extent our results of operation are less than anticipated or we are forced to make significant revisions to our current business plan, we may need to raise additional capital or refinance all or a portion of our debt on or before maturity in order to fund operations and to meet our debt service obligations, including payments under the Senior Bank Facility, the Multi-Borrower Credit Facilities, the Notes Proceeds Loans and the guarantees. However, our ability to raise capital or refinance our debt depends on a number of factors, including the liquidity of the capital markets, and we may not be able to do so on satisfactory terms, or at all. In the event that we cannot raise additional capital or refinance our debt, we may be unable to meet our payment obligations under the Senior Bank Facility, the Multi-Borrower Credit Facilities, the Notes Proceeds Loans and the guarantees. Our substantial debt service requirements could have a material adverse effect on our business, financial condition and results of operations. We are a leveraged company with significant debt service requirements. As of December 31, 2003, on a pro forma basis, assuming completion of the Refinancing Transactions and the conversion of the GCO Loan into common stock of Cableuropa, as described under "Use of Proceeds," "Offering Memorandum Summary—The Refinancing Transactions" and "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa," our indebtedness would have been € 1,005.7 million, which includes €515 million of drawings under our €750 million Senior Bank Facility.

All of our outstanding debt matures prior to the maturity of the Notes. Of such debt, €523.2 million is both secured and senior to the Notes Proceeds Loans.

In addition, a substantial portion of our debt, including under our Senior Bank Facility and the Floating Rate Notes Proceeds Loan, bears interest at variable rates. If market interest rates increase, our variable rate debt will create higher debt service requirements, which would adversely affect our cash flow. While we may enter into hedging or other agreements designed to limit our exposure to higher debt service requirements as a result of our variable-rate debt, there is no guarantee that such agreements will offer complete protection against such risk.

To fund net losses and finalize the build-out of our network we expect to incur additional indebtedness principally from drawdowns under the Senior Bank Facility. Our financial leverage could have important consequences, including:

- making it more difficult for us to satisfy our financial obligations, including those under the Senior Bank Facility, the Multi-Borrower Credit Facilities, the Notes Proceeds Loans and the guarantees;
 - increasing the cost of, or impeding our ability to obtain, additional debt or equity financing to fund our capital expenditures and the substantial net losses we expect to incur in connection with our operations and completion of the build-out of our network;
 - impeding our ability to compete with other providers of telephony, Internet and pay television services that are less leveraged than we are;
 - restricting our ability to bid for, or be awarded, licences or new franchises, make strategic acquisitions, exploit business opportunities or react to significant changes in our business or in general economic conditions; and
- adversely affecting public perception of us and our brand. Subject to certain restrictions, we may be able to incur substantially more debt. Subject to the restrictions in our Senior Bank Facility, the Existing Indentures, the Indentures and other outstanding debt, which are subject to a number of significant qualifications and exceptions, we may be able to incur substantial additional debt in the future, which could also be secured. For example, the Indentures and the Existing Indentures allow us to grant liens on our property or assets to secure any debt ranking senior to the guarantees and certain other debt that, in each case, may be incurred under the "Limitation on Debt" covenant in the Indentures described in "Description of the Notes—Certain Covenants—Limitation on Debt" and the corresponding covenant in the Existing Indentures. To the extent new debt is added to our currently anticipated debt levels, the risks described in "—Risks Relating to our Business—Our substantial debt service requirements could have a material adverse effect on our business, financial condition and results of operations" could become more significant. We have incurred substantial net losses to date and we may not be profitable in the future. The construction and operation of our network and the development of our business has required a significant investment. Excluding the extraordinary effect of our repurchase in 2003 of certain Existing Notes, we have incurred substantial net losses since our inception as our depreciation and amortization and our financial expenses have been significantly higher than our EBITDA. On a consolidated basis, and excluding the effect in 2003 of our repurchase of certain Existing Notes, we incurred net losses of € 106.8 million in 2003, €194.6 million in 2002 and € 216.9 million in 2001 and we expect to continue to incur net losses until at least 2006. However, we cannot be certain that we will achieve or sustain profitability in the future. As a result, we may not have sufficient funds to make payments on our substantial debt obligations, to meet the covenants under our Senior Bank Facility or to fund our operations. We prepare our financial statements in accordance with Spanish GAAP, which differs from U.S. GAAP. International Financial Reporting Standards or other accounting legislation may be applicable to us in the future, which could significantly affect our net equity. According to Spanish law and regulations, we carry our accounting records and prepare our financial statements in accordance with Spanish GAAP which differs from U.S. GAAP. The European Union intends to converge its Member States' accounting policies and adopt International Financial Reporting Standards ("IFRS"). Although we are not currently affected by any rule that requires us to change our accounting standards, we may be affected by these rules in the future. To the extent that we are required to adopt IFRS, or we choose to do so in the future, we would be required to change certain of our accounting policies. Such changes could significantly affect our net equity position and the presentation of our results of operations.

Risks Relating to our Business

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

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

- the continued build-out of our network within our franchise areas;
- development and deployment of new products and services;
- implementation of new technologies; and
- maintaining the quality of our network.

Our ability to fund our ongoing operations will depend on our ability to access financing and generate cash. Our ability to generate cash is dependent on many factors. For a discussion of these factors see "—Risks Relating to our Financial Profile—We may not generate sufficient cash flow to fulfill our debt obligations, including payments related to the Multi Borrower Credit Facilities and the Notes Proceeds Loans."

In addition, our liquidity and capital resource requirements may increase if we expand into additional franchise areas or if we make any future acquisitions. We may not generate sufficient cash flow or have access to sufficient funding to meet these requirements. If we fail to meet these requirements, our operations could be significantly affected and future growth could be significantly curtailed. We are dependent on others to provide premium programming for our cable television service, including one of our main competitors. Our ability to compete in the multi-channel pay television market is, in part, dependent on our ability to obtain attractive programming at a reasonable price. However, a relatively small number of companies, including Sogecable, our main competitor in the pay television market, produce and control access to premium programming. Sogecable is also one of our suppliers of content. If we are unable to purchase premium 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 as Digital +, controls a very significant portion of the Spanish pay television market. This significant market power may provide Sogecable with competitive advantages over our pay television operations, such as the ability to extend its range of preferential or exclusive agreements with providers of premium content, exert increased pricing power with respect to suppliers and the ability to eventually benefit from cross marketing with Telefónica (a significant shareholder in Sogecable). As such, Sogecable may prevent us from accessing certain programming or force us to pay substantial amounts to access programming for our subscribers. For additional information regarding our access to content, see "Business—Our Products and Services—Residential Services—Cable Television." The difficulties of integrating Retecal and its network into our business and operations could impede our future growth and adversely affect the operation of our business. GCO, our corporate parent, has recently completed the acquisition of Retecal, which holds the cable telecommunications franchise for the region of Castilla y León. Retecal is not currently part of the ONO Group. However, we intend to integrate Retecal and its network into our business and operations in stages. In the first stage, we intend to enter into shared service agreements with Retecal over the short term in order to capture economies of scale and aggregate buying power. Thereafter, and subject to the terms of the Indentures and the Existing Indentures, we intend to fully integrate Retecal and its network into our business and operations although this integration will take place no earlier than during the fourth quarter of 2004. These activities may divert the attention of our senior management which could have a negative impact on the operation of our business.

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

- difficulty in integrating the acquired business in a cost-effective manner, including network infrastructure, management information and financial control systems, personnel, marketing, customer service and product offerings;
- unforeseen legal, regulatory, contractual, labor or other issues arising from the acquisitions;
- significant unexpected liabilities or contingencies arising from the acquisition, for which we are not fully indemnified;
- inability to retain customers following the acquisition;
- potential disruptions to our ongoing business caused by senior management's focus on the acquired companies;
- inability to maintain uniform quality standards, controls, procedures and policies; and
- the impairment of relationships with employees as a result of changes in management and ownership.

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

In addition to the foregoing, the integration of Retecal into the ONO Group will initially increase the debt levels in the ONO Group. 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 such events could adversely affect our business or profitability. We depend upon a small number of major suppliers, including Alcatel and Motorola for essential products and services relating to our network infrastructure. These suppliers may, among other things, extend delivery times, supply unreliable equipment, raise prices and limit or discontinue supply due to their own shortages or business requirements.

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 these 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 or at all might be adversely affected, which could negatively impact our growth, financial condition and results of operations.

Unanticipated network interruptions may adversely affect our ability to deliver our products and services. Our business is dependent on the continued and uninterrupted performance of our network. We manage and monitor our network on a 24 hours a day, 365 days a year basis. However, system, network, hardware and software failures, have occurred and could occur in the future and affect the quality of, or cause an unexpected interruption in, our service. These failures could result in costly repairs and affect customer satisfaction thereby reducing our customer base and revenues, and damaging our brand image.

Moreover, if any part of our network is affected by flood, fire or other natural disaster, terrorism, power loss or other catastrophe, our operations and customer relations could be materially adversely affected. Our disaster recovery, security and service continuity protection measures include back-up power systems, resilient ring network systems, and network monitoring. However, we cannot assure you that these precautions will be sufficient to prevent loss of data or prolonged network downtime.

In addition, our business is dependent on certain sophisticated critical systems, including our switches, billing and customer service systems. The hardware supporting those systems is housed in a relatively small number of locations and if damage were to occur to any such locations or if those systems develop other problems, there could be a material adverse effect on our business. Our business depends on the 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 maintain and expand our customer base, enhance our operating and financial performance and satisfy regulatory requirements. The maintenance and improvement of our existing networks as well as our continued build-out depends on our ability to:

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

If we fail to maintain and improve our network, our services may be less attractive to existing and potential customers and we may lose customers to competitors who are able to provide higher quality services than us. 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. We are currently integrating a new billing and customer relations management system that requires both capital expenditure and a complex migration and integration process. Our inability to effectively implement the new billing system could have a significant adverse effect on the quality of our customer service, our brand image among residential and business customers and the size of our subscriber base. This could impact our financial conditions and make it more difficult for us to fund our operations and meet our substantial debt obligations. Loss of key employees could weaken our business. Our operations are managed by a number of key executives and employees. The loss of key employees could significantly impede our financial plans, product development, network completion, marketing and other plans. In addition, competition for qualified executives in the telecommunications industry is intense. Our growth and our success in implementing our business plans will largely depend on our continued ability to attract and retain highly skilled employees. We cannot assure you that we will be successful in hiring and retaining qualified personnel. If any of our senior executives or other key personnel cease their employment with us, our future operations could be harmed.

The Spanish residential and business telephony, Internet and pay television markets are highly competitive and may become more competitive in the future, which could result in lower prices, the loss of current and potential subscribers, and reduced revenues and profitability. We face significant competition from established and new competitors who provide telephony, Internet, television and business services in Spain. In some instances, we compete against companies with fewer regulatory burdens, larger financial resources, more comprehensive products and services, greater personnel resources, wider geographical coverage, greater brand name recognition and more established relationships with regulatory authorities and customers.

Residential Telephony. In the telephony market, our principal competitor is Telefónica and its various subsidiaries. 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, we also compete with mobile telephone operators such as Telefónica Móviles (a subsidiary of Telefónica), Vodafone and Amena (a member of the Auna Group) that may threaten the competitive position of our networks, particularly if charges for calls on mobile networks continue to decrease. Spain has yet to see a significant increase in Internet based telephony traffic in the residential market. We do however anticipate that this will represent a competitive threat in the future.

Residential Internet. Telefónica is our principal competitor with respect to broadband Internet services. In addition to Telefónica, there are various providers of DSL broadband Internet services that offer broadband services using Telefónica's network on a bundled and unbundled basis, such as Wanadoo, Tiscali and Ya.com.

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

In addition, Spanish regulations regarding the provision of cable television services have recently been liberalized to allow new authorizations to provide cable television services in our franchise areas although no such authorizations will be granted before December 31, 2009. For a more detailed description, see "Regulation—Regulation of Cable Television Services."

Business Services. Telefónica and its affiliates are our principal competitors in providing business telecommunications services, followed by Auna, BT-Ignite, COLT Telecom España, Uni2 and Comunitel, among others. We also compete with other operators including wireless local loop operators.

Competition from the companies described 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 four of our business segments, resulting in a decrease in our ARPU, a loss of subscribers and a decrease in profitability. In addition, technological developments are increasing cross-competition in certain markets, such as that between mobile and fixed-line telephony. As a result of the foregoing, our success in the market is affected by the actions of our competitors. In particular, our business may be affected if our competitors:

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

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

The telecommunications industry is subject to rapid technological changes and such changes could have a material adverse effect on our ability to provide competitive services. The telecommunications industry is characterized by rapid technological changes and the introduction of new products and services, including developments in technologies such as Internet-based telephony. Our future success depends on our ability to anticipate and adapt in a timely manner to such changes. We expect that new products and technologies will emerge and that existing products and technologies will further develop potentially reducing the prices for our services and rendering obsolete the products and services we offer and the technologies we use. 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 flow from operations were insufficient, we would have to seek additional financing to fund the 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 to adopt and deploy such new technology in a timely manner.

There is no guarantee that we will successfully anticipate the demands of the marketplace with regard to new technologies. This failure could affect our ability to attract and retain customers and generate revenue growth, which in turn could have a material adverse effect on our

financial condition and results of operations. Conversely, we may overestimate the demands of the marketplace with regard to certain new technologies. If any new technology that we introduce fails to achieve market acceptance, our revenue growth, margins and cash flows may be adversely affected and as a result we may not recover any investment made to deploy such new technology. We operate in a highly regulated market that could require us to make additional expenditures or limit our revenues. We operate in highly regulated markets subject to the supervision of various regulatory bodies, including local and national authorities and the European Union. 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 the different networks and the interconnection rates, among others, for fixed and mobile that we can charge and that we pay;
- requirements that, under specified circumstances, a cable system carry certain broadcast television channels ("must-carry" requirements);
- rules for license renewals and transfers;
- regulations relating to subscriber privacy;
- taxes imposed on our public rights of way and revenues;
- other requirements covering a variety of operational areas such as land use and environmental protection, technical standards and subscriber service requirements;
- significant market power regulations; and
- regulation on cable television.

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

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

We are also involved in legal proceedings that are contesting our award of the Huelva and Andalucía franchise areas as well as challenging the enlargement of our franchise area of Mallorca. If we lose any of these legal proceedings or any of the contested franchise areas, we would be in default under the terms of the Senior Bank Facility, the Existing Indentures and the Indentures. Any such default could result in a material adverse effect on our business and results of operations. For additional information, see "Business—Legal Proceedings."

Risks Relating to the Notes

The subsidiary guarantees are subordinated to all of our existing and future senior debt and upon the occurrence of a Repayment Event will be subject to limitations on the ability of Note holders to enforce their rights under the subsidiary guarantees. The Notes will be unsecured senior obligations of ONO Finance and will be guaranteed, jointly and severally, on a senior subordinated basis by the guarantors. As of December 31, 2003, the Existing Notes and the existing guarantees were subordinated to €556.7 million in senior debt and ranked equally with the €98.5 million GCO Loan. As of December 31, 2003, on a pro forma basis, assuming completion of the Refinancing Transactions and the conversion of the GCO Loan into common stock of Cableuropa, the Notes Proceeds Loans and the guarantees would have been subordinated to €556.7 million in senior debt and ranked equally with €169.0 million of senior subordinated debt. All of our debt matures prior to the maturity of the Notes. Our lenders could also require us to apply all available cash to repay the borrowings or prevent us from making debt service payments on the Notes Proceeds Loans, either of which would be an event of default under the Notes. Under any of these circumstances we cannot assure you that our assets would be sufficient to repay such debt in full.

Payment of all obligations under the Notes Proceeds Loans and the subsidiary guarantees will be subordinated in right of payment to the payment, when due, of all existing and future senior debt of the subsidiary guarantors. The Notes Proceeds Loans and the subsidiary guarantees will also be effectively subordinated to any secured debt of the subsidiary guarantors, to the extent of the value of the assets securing such debt.

Prior to a Repayment Event:

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

Upon and after a Repayment Event:

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

The Trustee may accede to any future intercreditor agreements (without the consent of the holders) to give effect to these subordination provisions.

As a result of the foregoing, in the event of a bankruptcy, reorganization, insolvency or other proceedings relating to a subsidiary guarantor, holders of senior debt and other creditors (including trade creditors) of such guarantor may recover more ratably than the holders of the Notes. Our Senior Bank Facility contains financial covenants which we could fail to meet. The Senior Bank Facility as amended or refinanced requires us to satisfy specified financial tests and maintain specified financial ratios and covenants regarding maximum total group senior debt to consolidated annualized EBITDA, maximum group total indebtedness to consolidated annualized EBITDA, minimum EBITDA to senior interest expense, minimum EBITDA to total interest expense and maximum total capital expenditure. See "Description of Other Indebtedness—The Senior Bank Facility."

Our ability to comply with these ratios and to meet these tests may be affected by events beyond our control and 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 Bank Facility unless we can obtain waivers or consents in respect of any breaches of these obligations under the Senior Bank Facility. We cannot assure you that these waivers or consents will be granted. In the event of any default under the Senior Bank Facility, the lenders under that facility will not be required to lend any additional amounts to us and could elect to declare all outstanding borrowings, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. In the event of a default, the relevant lenders could also require us to apply all available cash to repay the borrowings or prevent us from making debt service payments on the Notes Proceeds Loans, either of which would be an event of default under the Notes. If the debt under the Senior Bank Facility or the Notes Proceeds Loans 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, including the Indentures, limit our ability to take certain actions. The terms of the Senior Bank Facility, the Existing Indentures and the Indentures contain a number of restrictive covenants and other provisions that limit our ability to operate our business. For example, these terms limit our ability to, among others things:

- pay dividends or make other distributions;
- make certain investments or acquisitions;
- engage in transactions with affiliates and other related parties;
- merge or consolidate with other companies;
- make capital expenditures;
- sell or dispose of assets other than in the ordinary course of business;

- incur additional debt; and
- create certain liens.

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

Enforcing your rights under the Notes or the guarantees across multiple jurisdictions may prove difficult.

The Notes will be issued by ONO Finance, which is incorporated under the laws of England and Wales and the Notes will be guaranteed by the guarantors, each of which is incorporated under the laws of the Kingdom of Spain. In addition, the Notes and the Indentures are governed by the laws of the State of New York.

In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in England, Spain or the United States. Such multi-jurisdictional proceedings are likely to be complex and costly for creditors and otherwise may result in greater uncertainty and delay regarding the enforcement of your rights. Your rights under the Notes and the guarantees will be subject to the insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex multiple bankruptcy, insolvency or similar proceedings.

In addition, the bankruptcy, insolvency, administrative and other laws of England, Spain and the United States may be materially different from, or be in conflict with, each other and those with which you may be familiar, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes and the guarantees in the relevant jurisdictions or limit any amounts that you may receive.

Furthermore, although we believe that the guarantees are enforceable, there can be no assurance that a third-party creditor would not challenge these guarantees of the Notes and prevail in court.

Local insolvency laws may not be as favorable to you as those of another jurisdiction with which you may be familiar.

Since ONO Finance is incorporated, has its registered office and conducts the administration of its business in England and Wales, any insolvency proceedings against ONO Finance are likely to be commenced in England and based on English insolvency laws (although Spanish insolvency law cannot be discarded). As we and our subsidiaries are organized under the laws of the Kingdom of Spain, any insolvency proceedings against such companies are likely to be based on Spanish insolvency laws. New York law governs the Notes and the guarantees. The Notes Proceeds Loans are governed by the laws of England and Wales. In insolvency proceedings in the applicable jurisdiction, however, it is unclear which law would be applied to the Notes, the guarantees and the Notes Proceeds Loans, or what the outcome of such claims would be. The following is a brief description of certain aspects of insolvency laws in England, Spain and the United States.

English law. If we are unable to satisfy our obligations to ONO Finance under the Notes Proceeds Loans and ONO Finance is therefore unable to pay principal and interest on the Notes and to pay its other expenses, ONO Finance may be placed into liquidation or administration because it is held to be unable to pay its debts under the Insolvency Act 1986. Under English insolvency law, ONO Finance's liabilities in respect of the Notes in a liquidation will be payable after certain categories of debts that are entitled to priority under English law, such as, for example, the costs of the liquidation or administration. If ONO Finance enters liquidation or administration after the issuance of the Notes, you could lose your entire investment in the Notes.

Under English insolvency law, the liquidator or administrator of a company may, among other things, apply to the court to unwind a transaction entered into by a company, if the company was insolvent, as defined in the Insolvency Act 1986, at the time of, or as a result of, the transaction and entered into formal insolvency proceedings up to two years after the transaction. A transaction might be challenged in this way if it involved a gift by the company or the company received payment of significantly less than fair market value. A court generally will not intervene, however, if the company entered into the transaction in good faith for the purposes of carrying on its business and if, at the time it did so, there were reasonable grounds for believing the transaction would benefit the company.

Directors of an English company owe fiduciary duties to the company, which, when the company is insolvent or of doubtful solvency, means that they must give primary consideration to the interests of the company's creditors. Under English insolvency law a liquidator may bring

proceedings against directors who knew or ought to have known that there was no reasonable prospect of the company avoiding insolvent liquidation if the directors failed to take every step to minimize potential loss to creditors. Insolvent liquidation for this purpose means a liquidation where the company's assets are less than its liabilities, including contingent and prospective liabilities and the expenses of winding up. The court has the power in such circumstances to require a director to make such contributions to the company's assets as the court thinks proper. When compared to U.S. law, the effect of this more stringent regime on directors and the possible imposition of personal liability on directors may affect a board of directors' decision to operate a company if it is in a position of potential insolvency.

Spanish law. Under current Spanish law, there are two types of insolvency proceedings: bankruptcy proceedings (*quiebra*) and suspension of payments (*suspensión de pagos*) proceedings. Bankruptcy proceedings involve the judicial liquidation of the assets of the bankrupt company and the orderly distribution of the proceeds to creditors. The bankruptcy judge may establish a date prior to the commencement of the proceeding, after which all acts and transactions by the debtor are automatically deemed null and void. Under the more common suspension of payments proceedings, the debtor and its creditors seek to agree upon a repayment schedule and reorganize the company. In both types of proceedings, holders of mortgages and secured pledges are excluded or separated from the estate and can foreclose on those assets independently, provided the mortgages and secured pledges are not affected by the clawback date. If there is a shortfall, the uncollected amount is treated as unsecured debt ranking senior to the rights of unsecured creditors who notarized their interests subsequent to the date of creation of the mortgage or pledge.

The Spanish Commercial Code (*Código de Comercio*) and the Spanish Suspension of payments Law (*Ley de Suspensión de Pagos*) and the new Insolvency Law (Law 22/2003, of July 9, on Insolvency, hereinafter, the "Insolvency Law"), that will enter into force on September 1, 2004, may operate to either subordinate or void our obligations under the Indentures and the Existing Indentures.

In the event of a bankruptcy, suspension of payments (*suspensión de pagos*) or similar proceeding, our obligations under the guarantees and under the Notes Proceeds Loans will be paid only after payment of all our obligations to our senior creditors and certain other categories of our creditors which will be determined by applicable Spanish legislation and regulation.

If we enter into bankruptcy, a court in its discretion can "backdate" the date of bankruptcy to the date on which the court decides that we became insolvent (*Retroacción Absoluta*). All transactions entered into or payments made by us after the "backdate" of bankruptcy may be declared null and void. Thus, if a court were to "backdate" the date of our bankruptcy to a date prior to the issuance of the guarantees and the execution of the Notes Proceeds Loans, our obligations under such agreements would be declared null and void in their entirety, provided that such transaction is challenged by a creditor or the trustee in bankruptcy.

In addition, our obligations under the guarantees and the Notes Proceeds Loans may be declared null and void in their entirety under certain circumstances (*Retroacción Relativa*) even if the date of bankruptcy is not "backdated" to a date prior to the issuance of the Notes if we enter into either bankruptcy or reorganization, and if we are both insolvent and the excess of our liabilities over our assets is not guaranteed (*insolvencia definitiva*), such obligations may be declared null and void within two years of the filing date or "backdate" of bankruptcy or the filing date of reorganization if such transaction:

- was entered into with fraudulent intent; or
- is a transaction of the type deemed void under the Spanish Commercial Code.

In addition, any payments made by us under the Indenture within 15 days of such filing dates or "backdate" would be required to be returned to such company.

An example of a transaction entered into with fraudulent intent would be the granting of an obligation in return for significantly less valuable consideration.

This "backdate" procedure has been replaced in the Insolvency Law by a period of two years, whereby certain transactions falling within that period may be declared null and void, irrespective of the existence of good or bad faith on the part of the debtor, provided those transactions are detrimental to the insolvent debtor. Under the Insolvency Law, a transaction is deemed to be detrimental to the insolvent debtor if it falls into one of the following categories, inter-alia: (i) a transfer of assets without consideration; and (ii) early repayment of indebtedness maturing after the declaration of insolvency. In addition, further to the Insolvency Law, it will be presumed that a transaction is detrimental to the insolvent debtor if: (i) collateral is granted in favor of existing obligations, or in favor of new obligations replacing the existing ones; and (ii) transfers of assets in favour of persons specially related to the insolvent debtor (e.g. companies belonging to the same group). Any other transaction carried out by the insolvent debtor may also be declared null and void if it can be proven that it is detrimental to the interest of such debtor.

Holders of mortgages or security pledges over assets belonging to the insolvent debtor and attached to his professional or business activity may not enforce under the Insolvency Law their rights until either a composition agreement that does not affect their rights is approved by the creditors or one year has elapsed since the court's insolvency declaration and the liquidation procedure has not begun. Pursuant to the

Insolvency Law, holders of mortgages and security pledges will be paid before ordinary or subordinated claims, either through the relevant foreclosure proceeding if the conditions of the Insolvency Law are met or within the liquidation process. Holders of unsecured, unsubordinated debt will be paid pro rata from the remaining assets of the estate after all specially privileged claims and claims against the estate are satisfied in full. As a matter of law, payments under credit facilities with entities of the same group as the insolvent debtor will be subordinated and payable after (i) ordinary credits declared subordinated by the management of the insolvency procedure by reason, among others, of being notified to the trustees of the insolvency after the deadline for submitting those credits; (ii) contractually subordinated credits; (iii) credits derived from any type of interests, including default interests, except interests on secured credits up to the amount of the relevant security; and (iv) credits derived from fines and other monetary sanctions. Additionally, it should be noted that under the Insolvency Law, payment of subordinated obligations will be paid on a pro-rata basis. As there is no case law and the Insolvency Law has not yet come into force, it remains to be seen how the relevant court will treat the payment of contractually subordinated obligations and if a contractually subordinated obligation may rank junior to a subordinated claim of a specially related party (as defined in the Insolvency Law).

U.S. and New York law. Under U.S. federal bankruptcy law and New York fraudulent conveyance law, if a court in a lawsuit on behalf of an unpaid creditor, we or any of the other guarantors or a representative of creditors, such as a trustee in bankruptcy, of such company were to find that, at the time such company incurred the debt represented by the relevant obligation,

- (1) such company incurred the debt with the intent of hindering, delaying or defrauding existing or future creditors; or
- (2) (a) such company received less than fair consideration or reasonably equivalent value for incurring such debt; and
(b) such company: was insolvent or was rendered insolvent by reason of such transactions; was engaged, or about to engage, in a business or transaction for which its remaining assets constituted unreasonably small capital; or intended to incur, or believed that it would incur, debts beyond its ability to pay as they matured,

then the court could avoid or invalidate all or a portion of the relevant obligation to presently existing and future debt of such company, direct that holders of the Notes return any amounts paid by such company and take other actions detrimental to you.

Fraudulent transfer statutes may limit your rights as a holder of Notes.

ONO Finance's obligations under the Notes are guaranteed by the guarantees. The guarantees may be subject to review under the bankruptcy laws of the relevant jurisdiction in which the guarantors operate, or the laws in which any insolvency proceedings may be held. It is possible that creditors of the guarantors may challenge the guarantees as a fraudulent transfer or conveyance. If so, such laws may permit a court, if it makes certain findings, to:

- avoid all or a portion of the guarantors' obligations under the guarantees;
- subordinate the guarantors' obligations under the guarantees to their other existing and future debt, entitling other creditors to be paid in full before any payment is made under the guarantees;
- direct that holders of the Notes return any amounts paid under a guarantee to the relevant guarantor or to a fund for the benefit of its creditors; or
- take other action detrimental to you, including invalidating the guarantees.

In that event ONO Finance cannot satisfy its obligations under the Notes, we cannot assure you that you would ever be repaid. In addition, the liability of each guarantor under the Indentures will be limited to the amount that will result in its guarantee not constituting a fraudulent conveyance or improper corporate distribution and there can be no assurance as to what standard a court would apply in making a determination as to what would be the maximum liability of each guarantor.

Under such bankruptcy and fraudulent transfer laws, in order to take any of those actions, courts will typically need to find that, at the time the guarantees were issued, the guarantor:

- issued the guarantee with the intent of hindering, delaying or defrauding current or future creditors; or
- received less than fair consideration or reasonably equivalent value for incurring the debt represented by the guarantees on the basis that the guarantees were incurred for ONO Finance's benefit, and only indirectly for the benefit of the guarantors, or some other basis; and was insolvent or was rendered insolvent by reason of the issuance of the guarantee; was engaged, or about to

engage, in a business or transaction for which the guarantor's assets were unreasonably small; or intended to incur, or should have believed the guarantor would incur, debts beyond its ability to pay such debts as they mature.

Many of the foregoing terms are defined in or interpreted under those fraudulent transfer statutes.

Different jurisdictions define "insolvency" in various ways. However, a guarantor generally would be considered insolvent at the time it issued the guarantee if:

- its liabilities exceeded its assets, at a fair valuation;
- it could not pay its debts as they fell due;
- the present saleable value of its assets was less than the amount required to pay its total existing debts and liabilities, including the probable liability related to contingent liabilities, as they became absolute or matured; or
- it is under any of the situations mentioned in Article 2 of the Insolvency Law, which includes, inter-alia, the existence of liens for pending enforcement actions affecting the estate of the insolvent debtor in general or the liquidation of its assets by the insolvent debtor.

We cannot assure you (1) which standard a court would apply in order to determine whether a guarantor was "insolvent" as of the date the guarantees were issued; (2) that, regardless of the method of valuation, a court would not determine that a guarantor was insolvent on that date; or (3) that a court would not determine, regardless of whether or not a guarantor was insolvent on the date the guarantees were issued, that the guarantees constituted fraudulent transfers on another ground. If we experience a change of control, ONO Finance may not have enough money to repurchase the Notes. Under the terms of the Existing Indentures and the Indentures, upon the occurrence of a change of control of GCO, or the sale of all or substantially all of the assets of Cableuropa, ONO Finance is required to offer to purchase all outstanding Existing Notes and Notes at a purchase price equal to 101% of the aggregate principal amount thereof, in addition to the accrued and unpaid interest, if any, up to the purchase date. In the event of such an occurrence, there is no guarantee that ONO Finance will have sufficient funds to pay the purchase price for all Existing Notes and Notes (which is dependent on our repayment of the Multi-Borrower Credit Facilities and the Notes Proceeds Loans, respectively). In addition, the Senior Bank Facility and instruments governing our existing and future debt may prohibit us from purchasing the Existing Notes or the Notes prior to their stated maturity, including upon a change of control or a sale of all or substantially all of our assets. The failure to purchase all the Existing Notes or the Notes validly tendered pursuant to such an offer to purchase would result in an event of default under the Existing Indentures and the Indentures which, in turn, would constitute an event of default under the Senior Bank Facility. In such circumstances, the subordination provisions in the Existing Indentures and the Indentures would restrict any purchase of the Existing Notes or the Notes (including payments under the guarantees) unless all of our Senior Debt has been paid in full. See "Description of the Notes—Repurchase at the Option of Holders Upon a Change of Control." There is no prior market for the Notes. Application has been made to list the Notes on the Luxembourg Stock Exchange. However, the Notes will be new securities for which there is no established trading market. The Managers have advised us that they currently intend to make a market in the Notes. However, they are not obliged to do so and they may discontinue any market making at any time. Accordingly, an active market for the Notes may not develop. If a market develops, the Notes could trade at prices that are lower than the initial offering price for the Notes. The trading price for Notes depends on many factors, including prevailing interest rates, general economic conditions, our performance and financial results, and the markets for similar securities.

Historically, the markets for non-investment grade debt such as the Notes have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions. Any disruptions may have an adverse effect on the holders of the Notes. Transfers of the Notes will be restricted. The Notes have not been and will not be registered under the U.S. Securities Act, any U.S. state securities laws or under any other country's securities laws. You may not offer the Notes in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. You should read the discussion in "Notice to Investors" for more information about these and other transfer restrictions. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "Notice to Investors." Because virtually all of our assets are located outside of the United States, it may be difficult to complete service of process and enforce in Spain any judgment obtained against us in the United States. The Notes will be issued by ONO Finance, which is incorporated under the laws of England and Wales. The Notes will be guaranteed by Cableuropa and other guarantors organized under the laws of the Kingdom of Spain. Most of our directors and officers are non-residents of the United States and virtually all of our assets and the assets of our directors and officers are located outside the United States. As a result, it may not be possible to effect service of process within the United States on us or our directors or officers for any action, including actions arising under the U.S. securities laws, or to enforce judgments of U.S. courts based upon these laws.

Any judgment obtained against us or any of the guarantors in the United States would be recognized and enforced in accordance with the Law of Civil Procedure by the courts of Spain, unless such judgment contravenes principles of Spanish public policy, if an appropriate order were obtainable. These orders are attainable:

- according to the provisions of any applicable treaty, there being none currently in existence with the United States for these purposes;
- in the absence of any such treaty, if it could be proven that the jurisdictions where the foreign judgment were rendered (in this case, the United States) recognizes Spanish judgments on a reciprocal basis (positive reciprocity). However, if the U.S. jurisdiction in which the judgment was obtained does not recognize judgments issued by Spanish courts, then, the Spanish courts would not recognize the U.S. judgment in Spain (negative reciprocity); or
- in the absence of any such treaty and in the absence of proof of positive or negative reciprocity, the judgment would be enforced in Spain if it satisfies all the following requirements:
 - the judgment was issued in exercise of an action based on personal relationship;
 - the judgment was not issued in default;
 - the liability claimed must be valid under Spanish law; and
 - the notice of the judgment for enforcement complies with all of the requirements of the jurisdiction where the judgment has been issued in order for such notice to be authentic and fulfils all requirements established in Spain for the relevant document to be recognized under Spanish law.

These requirements may make it difficult for you to enforce in Spain a judgment obtained against us in the United States.

In addition, there is doubt as to the enforceability of certain civil liabilities under U.S. securities laws in original actions in English courts. See "Service of Process and Enforcement of Liabilities." ONO Finance is a special purpose financing entity with no operations of its own and is dependent upon payments under the Notes Proceeds Loans to meet its obligations under the Notes. ONO Finance, the issuer of the Notes, is a special purpose financing entity with no business operations other than the issuance of debt securities and the lending of the proceeds of such offerings to the ONO Group under the Notes Proceeds Loans and the Multi-Borrower Credit Facilities. ONO Finance's ability to make principal and interest payments on the Notes is dependent directly on our payments to ONO Finance under the Notes Proceeds Loans. Our ability to make payments on the Notes Proceeds Loans will depend on a number of factors, some of which may be beyond our control. See "—Risks Relating to Our Business." If we fail to make scheduled payments under the Notes Proceeds Loans or the guarantees, ONO Finance will not have any other source of funds to meet its payment obligations under the Notes.

In addition to the foregoing, upon a Repayment Event ONO Finance will provide a first-ranking security interest in its rights and claims under the Notes Proceeds Loans in favor of the senior lenders under the Senior Bank Facility. In addition, the subsidiary guarantors will be automatically and unconditionally released in the event that all of the capital stock of the relevant subsidiary guarantor is sold pursuant to an enforcement by the senior lenders under the Senior Bank Facility.

EXCHANGE RATES

The table below sets forth the euro versus the U.S. dollar as certified by the European Central Bank. We do not represent that the U.S. dollar amounts referred to below could have been converted into euro at any particular rate indicated or at any other rate. The rates below may differ from the rates used in our audited consolidated financial statements and other financial information appearing in this offering memorandum. The average amounts set forth below under "Average" are calculated as the average of the European Central Bank rates for euro on the last business day of each month.

	Low	High	Average	End of Period
	(U.S. dollars per euro)			
1999	1.0015	1.1790	1.0588	1.0046
2000	0.8252	1.0388	0.9198	0.9305
2001	0.8384	0.9545	0.8917	0.8813
2002	0.8578	1.0487	0.9511	1.0487
2003	1.0377	1.2630	1.1418	1.2630

The table below shows the high and low European Central Bank rates for euro for each month during 2004 prior to the date of the Listing Particulars.

	Low	High
	(U.S. dollars per euro)	
November 2003.....	1.1424	1.1994
December 2003.....	1.1975	1.2630
January 2004.....	1.2373	1.2828
February 2004.....	1.2418	1.2858
March 2004.....	1.2118	1.2484
April 2004.....	1.1826	1.2320
May 2004.....	1.2274	1.1801
June 2004.....	1.2006	1.2320
July 2004.....	1.2026	1.2397
August 2004 (through August 6).....	1.1983	1.2064

On August 6, 2004 the European Central Bank rate was €1.00 = \$1.2064.

THE ONO GROUP

Cableuropa is a Spanish cable multiservice operator and the intermediate holding company for our four principal operating subsidiaries (Cableuropa and its subsidiaries, including the four principal operating subsidiaries described below are collectively referred to as the "ONO Group"). The ONO Group operates under the "ONO" brand and launched commercial services in 1998. Grupo Corporativo ONO, S.A. ("GCO") is our ultimate corporate parent and sole shareholder.

Our reorganization process

Prior to November 1999, Cableuropa owned between 28% and 89% of its Spanish cable and telecommunications subsidiaries. The remaining interests were held by Spanish Telecommunications Limited S.à.r.l. ("Spaincom") and various other minority shareholders comprised principally of regional financial institutions, regional media groups and local businesses. In 1999, Cableuropa commenced a reorganization process to merge its cable and telecommunications subsidiaries into Cableuropa and to consolidate and simplify its corporate structure. Between 1999 and 2001 most of the minority shareholders, as well as Spaincom, exchanged their interest in the relevant subsidiaries for ordinary shares of Cableuropa. Thereafter, all but four of our operating subsidiaries were merged into Cableuropa and Cableuropa acquired all of their assets and liabilities. In January 2002, Cableuropa's shareholders contributed all of the outstanding shares of Cableuropa to GCO in exchange for 100% of GCO shares, and GCO became the sole direct shareholder of Cableuropa.

Cableuropa, Valencia North, Valencia South, Murcia and Valencia are the ONO Group's operating companies that are recorded as electronic communications operators and own the necessary authorizations to provide cable television services in our various franchise areas.

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

As of December 31, 2003, we had other non-operating subsidiaries that are in the process of being sold or liquidated. For more information regarding these subsidiaries, see note 1 to our audited consolidated financial statements.

Financial Year

Our financial year begins on January 1 and ends on December 31.

Information regarding our subsidiary guarantors

Valencia de Cable, S.A. ("Valencia") was incorporated on July 7, 1995 under the laws of Spain and its primary business activity is to provide integrated telephony, broadband Internet and cable television services to residential and business customers in the City of Valencia. Valencia's registered office is Calle del Gremis No. 12, Poligono Industrial Vara de Quart, Valencia. Under Article 2 of Valencia's Articles of Association, the principle object of Valencia is (i) the installation of cable systems in order to provide the transmission of images, voice and data; (ii) the carrying out of studies, opinions and reports therefore, and (iii) the rendering of services through or related to cable systems. As at December 31, 2003, Valencia had 1,195,965 ordinary shares outstanding, with a par value of €46.866550 per share. The ordinary shares constitute Valencia's only class of capital stock and each share outstanding is entitled to one vote per share. The table below sets forth information regarding the capitalization of Valencia. This is the most recent capitalization information available and except as disclosed herein there has been no material change to the capitalization as of the date hereof.

	<u>Valencia</u>
	<u>As at December 31,</u>
	<u>2003</u>
Equity	
Issued capital.....	56,051
Fully paid capital	56,051
Accumulated deficit	(76,632)
Net income (loss)	(1,744)
Other reserves	0
Total equity.....	(22,325)

Region de Murcia de Cable, S.A. ("Murcia") was incorporated on April 12, 1995 under the laws of Spain and holds the franchise for our Murcia Cluster and provides integrated telephony, broadband Internet and cable television services to residential and business customers. Murcia's registered office is Avenida Juan Carlos I, Poligono Industrial el Espinardo, Edificio Torre-Cristal, Murcia. Under Article 2 of Murcia's Articles of Association, the principle object is (i) the installation of cable systems in order to provide the transmission of images, voice and data; (ii) the carrying out of studies, opinions and reports therefore, and (iii) the rendering of services through or related to cable systems. As at December 31,

2003, Murcia had 1,131,614 ordinary shares outstanding, with a par value of €36.045938 per share. The ordinary shares constitute Murcia's only class of capital stock and each share outstanding is entitled to one vote per share. On June 10, 2004, application was filed with the Mercantile Registry of Murcia to effect the merger of Murcia with and into Cableuropa.

	<u>Murcia</u>
	<u>As at December 31,</u>
	<u>2003</u>
Equity	
Issued capital.....	40,790
Fully paid capital	40,790
Accumulated deficit	(65,279)
Net income (loss)	(3,547)
Other reserves	16,019
Total equity.....	(12,017)

Mediterranea Norte Sistemas de Cable, S.A. ("Valencia North") was incorporated on July 7, 1995 under the laws of Spain and its primary business activity is to provide integrated telephony, broadband Internet and cable television services to residential and business customers in the region of Valencia North. Valencia North's registered office is Avenida Hermanos Bou, 16, Castellon de la Plana. Under Article 2 of Valencia North's Articles of Association, the principle object is (i) the installation of cable systems in order to provide the transmission of images, voice and data; (ii) the carrying out of studies, opinions and reports therefore, and (iii) the rendering of services through or related to cable systems. As at December 31, 2003, Valencia North had 1,871,584 ordinary shares outstanding, with a par value of €20.789952 per share. The ordinary shares constitute Valencia North's only class of capital stock and each share outstanding is entitled to one vote per share. The table below sets forth information regarding the capitalization of Valencia North. This is the most recent capitalization information available and except as disclosed herein, there has been no material change to the capitalization as of the date hereof.

	<u>Valencia North</u>
	<u>As December 31,</u>
	<u>2003</u>
Equity	
Issued capital.....	38,910
Fully paid capital	38,910
Accumulated deficit	(55,369)
Net income (loss)	(8,748)
Other reserves	0
Total equity.....	(25,207)

Mediterranea Sur Sistemas de Cable, S.A. ("Valencia South") was incorporated on July 7, 1995 under the laws of Spain and its primary business activity is to provide integrated telephony, broadband Internet and cable television services to residential and business customers in the region of Valencia South. Valencia South's registered office is Carretera de Ocana, 15, Alicante. Under Article 2 of Valencia South's Articles of Association, the principle object is (i) the installation of cable systems in order to provide the transmission of images, voice and data; (ii) the carrying out of studies, opinions and reports therefore, and (iii) the rendering of services through or related to cable systems. As at December 31, 2003, Valencia South had 2,237,135 ordinary shares outstanding, with a par value of €20.156072 per share. The ordinary shares constitute Valencia South's only class of capital stock and each share outstanding is entitled to one vote per share. The table below sets forth information regarding the capitalization of Valencia South. This is the most recent capitalization information available and except as disclosed herein, there has been no material change to the capitalization as of the date hereof.

	<u>Valencia South</u>
	<u>As December 31,</u>
	<u>2003</u>
Equity	
Issued capital.....	45,092
Fully paid capital	45,092
Accumulated deficit	(62,023)
Net income (loss)	(9,865)
Other reserves	0
Total equity.....	(26,796)

As at May 7, 2004, none of Valencia, Valencia North, Valencia South or Murcia have issued any convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

Summary Financial Information for the Subsidiary Guarantors

In the table below, we present selected unconsolidated financial information and capitalization for each of the Subsidiary Guarantors as of and for the year ended December 2002 and 2003.

We hereby incorporate by reference into these listing particulars the financial statements of Valencia, Valencia North, Valencia South and Murcia for the fiscal years ended December 31, 2001, 2002 and 2003. See "Incorporation by Reference." We have deposited this information with the Luxembourg Paying Agent, and you may inspect this information at the offices of the Luxembourg Paying Agent at The Bank of New York (Luxembourg) S.A., Aerogolf Centre, 1A Hoehenhof, - 1736 Senningerberg, Luxembourg.

	<u>Valencia</u>		<u>Murcia</u>		<u>Valencia North</u>		<u>Valencia South</u>	
	<u>As of and for the year ended December 31,</u>		<u>As of and for the year ended December 31,</u>		<u>As of and for the year ended December 31,</u>		<u>As of and for the year ended December 31,</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Profit and Loss Data:								
Net Sales.....	77,084	59,363	43,902	32,882	53,183	31,297	36,915	22,483
Operating profit (loss).....	2,365	(23,844)	(294)	(6,637)	(3,950)	(6,496)	(6,036)	(11,686)
Net income (loss).....	(1,744)	(33,166)	(3,547)	(20,650)	(8,748)	(28,480)	(9,865)	(31,424)
Balance Sheet Data:								
Total assets.....	285,371	281,939	223,310	214,552	284,964	251,099	240,356	227,356
Equity.....	(22,325)	(20,581)	(12,017)	(8,470)	(25,207)	(16,459)	(26,796)	(16,931)
Debt (included debt with group).....	281,264	284,165	218,078	211,497	286,612	253,832	246,965	233,429
<i>Short term debt:</i>								
Deudas con entidades cdto.....	104,251	82,159	102,087	63,501	143,279	104,231	109,756	86,353
Deudas por intereses.....	0	5,415	807	2,010	4,839	5,732	2,534	5,620
Deudas grupo y asociadas.....	5,444	6,781	4,000	4,984	3,340	4,285	2,661	3,464
	98,807	69,963	97,280	56,507	135,100	94,214	104,561	77,269
<i>Long term debt:</i>								
Préstamo participativo.....	177,013	202,006	115,991	147,996	143,333	149,601	137,209	147,076
Deuda relacionada emisión bonos.....	72,108	55,890	36,862	36,862	67,088	36,401	66,862	39,051
Otra deuda.....	104,074	145,285	78,402	110,407	75,206	112,161	69,018	106,696
	831	831	727	727	1,039	1,039	1,329	1,329

For additional information regarding the subsidiary guarantors, see the audited consolidated financial statements beginning on page F-1 and the unconsolidated financial statements of the subsidiary guarantors attached as an exhibit hereto.

ONO FINANCE

ONO Finance's principal purpose is to finance the business operations of the ONO Group. ONO Finance has not conducted operations since its inception and has no subsidiaries or significant business other than the issuance of debt securities (and potentially other securities in the future) and is not expected to produce any income except payments received from the ONO Group under the Multi-Borrower Credit Facilities, the Notes Proceeds Loans or similar arrangements, its only material assets available to meet the claims of the holders of the Notes and the Existing Notes. Pursuant to the Notes Proceeds Loans and the Multi-Borrower Credit Facilities, ONO Finance's operating and other expenses are payable by the ONO Group.

ONO Finance was incorporated on August 20, 1998 as a public limited company with limited liability under the laws of England and Wales. ONO Finance's registered office is located at 10 Upper Bank Street, London E14 5JJ and is registered as a company with the Registrar of Companies for England and Wales with company number 3619149. The authorized and issued share capital of ONO Finance is £50,000 divided into 50,000 ordinary shares of £1 each, of which two fully paid shares and 49,998 shares paid up to one quarter have been issued.

Shareholders of ONO Finance

ONO Finance (Holdings) Limited ("Holdings"), an English private limited company, holds 98% and Cableuropa holds the remaining 2% of ONO Finance's share capital. Holdings has a share capital of one pound consisting of a single share of par value one pound and its sole shareholder is Royal Exchange Trust Company Limited ("Retco"), a professional trust corporation, which holds this share under the terms of an English law charitable trust. Retco's principal place of business is 81-87 Gresham Street, London EC2V 7QE.

Holdings' articles of association and its memorandum of association:

- limit Holdings' activities to borrowing funds from Cableuropa to purchase and hold ONO Finance's shares, as well as other activities incidental thereto;
- prohibit the transfer of Holdings' shares to any party other than to Retco, to be held under the terms of the charitable trust, or to Cableuropa;
- prohibit the transfer of ONO Finance's shares held by Holdings to any party other than Retco or Cableuropa; and
- prohibit Holdings from issuing any securities, other than the initial issuance of its share capital to Retco, or otherwise to incur any indebtedness, other than a loan from Cableuropa sufficient to cover the costs of purchasing ONO Finance's shares and costs incidental to the maintenance of Holdings and ONO Finance.

Articles of Association and Memorandum of Association of ONO Finance

The articles of association and memorandum of association:

- limit ONO Finance's activities to issuing the Notes, or other debt securities in the future, and lending the proceeds of the Notes to Cableuropa and its subsidiaries, as well as other activities relating to the issuance of the Notes and Existing Notes and lending the proceeds of the Notes and the Existing Notes; and
- prohibit the transfer of shares to any party other than Holdings, Retco, to be held under the terms of the charitable trust, or Cableuropa.

Management of ONO Finance

ONO Finance's board of directors consists of two directors appointed by Retco, as indirect holder of 98% of the share capital pursuant to the terms of a charitable trust. Retco also holds the single share in ONO Holdings under the terms of a charitable trust governed by English law. Under English law a trust does not have a separate legal personality. The declaration of trust establishing the charitable trust gives Retco discretion to apply any residual value held by it for such purposes as it may select, provided they constitute "charitable purposes" under English law. The body which controls the day to day actions of Retco is its board of directors. Retco is a wholly-owned subsidiary of The Capita Group Plc.

USE OF PROCEEDS

The Issuer will use the gross proceeds of the offering of the Notes to make the Notes Proceeds Loans to Cableuropa and the other Subsidiary Guarantors. Cableuropa and the other Subsidiary Guarantors will each use the proceeds of the Notes Proceeds Loans to:

- First; repay the Multi-Borrower Credit Facilities in amounts equal to the aggregate principal amount outstanding of the Existing Notes accepted by the Issuer in the Tender Offer. In addition, Cableuropa will pay an early repayment fee to the Issuer in consideration for the early repayment of the Multi-Borrower Credit Facilities. This fee will be in an amount equal to the premium over the aggregate principal amount of Existing Notes tendered in the Tender Offer to be paid by the Issuer to the relevant holders of the Existing Notes, including, where applicable, the Early Tender Payment; and
- Second; to the extent that not all of the 2009 Notes have been tendered in the Tender Offer, the proceeds will be used to purchase any remaining 2009 Notes, including by means of an early redemption in accordance with the indentures governing the 2009 Notes. The 2009 Notes may be redeemed at any time on or after May 1, 2004 at a purchase price per \$1,000 or €1,000 principal amount, as the case may be, of 1,065.00.

The following table sets forth the expected sources and uses of funds for the offering of the Notes.

<u>Sources</u>	<u>Uses</u>
(in millions of euro)	(in millions of euro)
Notes offered hereby	Existing Notes purchased or redeemed in the Refinancing Transactions ⁽²⁾
280.0	274.3
	Cash ⁽³⁾
	5.7
Total Sources	Total Uses.....
280.0	280.0

(1) Amounts in euro assumes that dollar denominated Existing Notes were repurchased or redeemed in connection with the Refinancing Transactions at the exchange rate of €1.00=\$1.2028.

(2) This amount assumes that:

- all Existing Notes accepted in the Tender Offer are entitled to the Early Tender Payment,
- all of the 2009 Notes are repurchased or redeemed in connection with the Refinancing Transactions for an aggregate purchase or redemption price of €130.5 million, and
- €103.3 million and \$24.8 million aggregate principal amount of the 2011 Notes are accepted and purchased by the Issuer for an aggregate purchase price of €143.7 million.

(3) Estimated aggregate financing and other professional fees and expenses payable in connection with the Refinancing Transactions are expected to amount up to €9.0 million.

CAPITALIZATION OF CABLEUROPA

The following table sets forth as of December 31, 2003 (i) the actual consolidated capitalization of Cableuropa, which is derived from our audited consolidated financial statements included elsewhere in this offering memorandum and (ii) the consolidated capitalization of Cableuropa as adjusted to give effect to (a) the issuance of the Notes offered hereby and the use of proceeds thereof as set forth in "Use of Proceeds" (b) the Tender Offer as described in "Offering Memorandum Summary—The Refinancing Transactions" and "Use of Proceeds" and (c) the conversion of the GCO Loan and participative loans into common stock of Cableuropa as described in "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa." You should read this table together with our audited consolidated financial statements included in this offering memorandum and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa."

	As of December 31, 2003	
	Actual	As adjusted
	(euro in millions)	
Amounts in Accordance with Spanish GAAP:		
Cash ⁽²⁾	1.3	7.0
Short-term debt	16.3	16.3
Long term-debt:		
Senior bank facility	515.0	515.0
Multi-Borrower Credit Facilities (Existing Notes)	410.4	169.0
Other long term-debt	25.5	25.5
GCO Loan	98.5	—
Notes Proceeds Loans (Notes offered hereby)	—	280.0
..... Total long-term debt	1,049.4	989.4
Participative loans	300.0	—
Common stock and share premium	822.4	1,220.9
..... Total capitalization	2,188.1	2,226.6

(1) Dollar amounts in this table have been translated into euro at the foreign exchange reference rate for December 31, 2003 of € 1.00=\$1.2630 as certified by the European Central Bank.

(2) Estimated aggregate financing and other professional fees and expenses payable in connection with the Refinancing Transactions are expected to amount up to €9.0 million.

In addition, our Senior Bank Facility, all of the components of which mature on or prior to December 31, 2008, permits borrowings of up to a maximum amount of €750.0 million. As at March 31, 2004 we had a drawn balance of €545.0 million under the facility. See "Description of Other Indebtedness—The Senior Bank Facility."

Other than as set forth above, there has been no material change in the capitalization of Cableuropa since December 31, 2003.

CAPITALIZATION OF ONO FINANCE

The following table sets forth as of December 31, 2003 (i) the actual consolidated capitalization of ONO Finance, which is derived from the audited financial statements of ONO Finance included in this offering memorandum and (ii) the capitalization of ONO Finance as adjusted to give effect to (a) the issuance of the Notes offered hereby and the use of proceeds thereof as set forth in "Use of Proceeds" and (b) the Tender Offer as described in "Offering Memorandum Summary—The Refinancing Transactions" and "Use of Proceeds." You should read this table together with the audited financial statements of ONO Finance included in this offering memorandum.

	<u>£</u>	<u>euro⁽¹⁾</u>	<u>£</u>	<u>euro⁽¹⁾</u>
	Actual		As Adjusted	
	As of December 31, 2003			
	(in millions)			
Long-term debt:				
Existing notes	270.6	383.9	112.9	160.1
Notes offered hereby	—	—	191.0	271.0
..... Total long-term debt	270.6	383.9	303.9	431.1
Shareholders' equity (ordinary shares)	0.0	0.0	0.0	0.0
Total capitalization.....	270.6	383.9	303.9	431.1

(1) For the convenience of the reader, sterling amounts have been translated to euro at the foreign exchange rate published by the European Central Bank on December 31, 2003, £1.00 = €1.4188.

Other than as described in this offering memorandum, there has been no material change in the capitalization of ONO Finance since December 31, 2003.

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION
OF CABLEUROPA**

The following summary historical consolidated financial information presented below under the caption summary income statement data and under the caption summary balance sheet data is derived from our audited consolidated financial statements as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003. You should read the following financial information and operating data together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa" and our audited consolidated financial statements and notes thereto included in this offering memorandum.

Our audited consolidated financial statements have been prepared in accordance with Spanish GAAP, which differ in certain significant respects from U.S. GAAP. You can find a description of the most significant differences between Spanish GAAP and U.S. GAAP relevant to us and reconciliations of net income and shareholders' equity in note 29 of the notes to our audited consolidated financial statements.

	<u>As of and for the year ended December 31,</u>				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(euro in millions)				
Summary Income Statement Data:					
Revenues:					
Residential telephony.....	4.0	31.1	79.3	133.1	184.0
Residential Internet.....	—	2.0	18.1	39.1	62.3
Cable television.....	2.7	15.7	38.3	62.3	83.0
Business services.....	0.1	2.6	7.9	19.0	29.3
Total revenues.....	6.8	51.4	143.6	253.4	358.6
Expenses:					
Cost of services.....	12.2	35.6	74.3	85.7	105.6
Selling, general and administrative expenses.....	103.1	203.6	188.5	180.8	166.1
Costs capitalized.....	(65.8)	(117.9)	(61.8)	(28.9)	(15.2)
Restructuring and other related expenses.....	—	0.4	9.1	—	—
Broadcast rights amortization.....	1.3	4.8	4.5	5.7	4.2
Depreciation and amortization.....	11.6	33.9	80.8	98.3	102.5
Total operating expenses.....	62.4	160.4	295.4	341.6	363.2
Operating loss.....	(55.7)	(108.9)	(151.8)	(88.2)	(4.6)
Amortization of goodwill.....	—	(1.8)	(13.8)	(13.4)	(13.4)
Interest and other financial expense, net.....	(55.4)	(113.1)	(146.9)	(96.8)	(130.2)
Extraordinary income/(expense), net.....	3.3	25.7	(3.3)	(171.8)	298.2
Loss before tax and minority interests.....	(107.7)	(198.2)	(315.7)	(370.2)	150.0
Net profit/(loss).....	(45.3)	(124.9)	(216.9)	(194.6)	97.0
Summary Balance Sheet Data:					
Cash.....	146.3	3.5	0.6	1.3	1.3
Restricted cash ⁽¹⁾	100.9	110.9	27.6	39.1	—
Tangible assets, net.....	262.8	739.1	1,065.2	1,202.4	1,295.1
Total assets.....	774.1	1,772.1	2,087.4	2,259.3	2,123.3
Total debt ⁽²⁾	413.2	741.0	1,204.8	1,303.3	1,065.7
Participative loans ⁽³⁾	28.4	—	—	300.0	300.0
Common stock.....	134.6	489.0	484.7	484.7	484.7
Shareholders' equity.....	77.5	632.1	410.8	216.2	313.2
Summary Other Data:					
EBITDA ⁽⁴⁾	(30.2)	(55.8)	(57.2)	15.8	102.1
EBITDA margin ⁽⁵⁾	—	—	—	6.2%	28.5%
Capital expenditures ⁽⁶⁾	(207.9)	(428.4)	(359.7)	(251.7)	(198.6)
Net cash provided/(used) by operating activities.....	(151.9)	(151.7)	(252.5)	(176.8)	49.7
Net cash used in investing activities.....	(251.4)	(385.2)	(372.1)	(256.6)	(195.0)
Net cash provided by financing activities.....	532.8	404.8	620.8	424.5	145.1

- (1) Restricted cash is U.S. government securities and European government securities that were purchased and pledged to secure interest payments on the Existing Notes through March 2003.
- (2) Total debt is financial short-term debt and long-term debt. Total debt does not include participative loans. In 2003, total debt included the €98.5 million GCO Loan. GCO has confirmed that Cableuropa will convert the GCO Loan into common stock of Cableuropa. See "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa." Total debt does not include accrued interest expenses. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa—Liquidity and Capital Resources."
- (3) In 1999, participative loans represent subordinated loans from Spaincom. From 2002, participative loans are subordinated loans from GCO to Cableuropa. The participative loans do not currently bear interest. GCO has confirmed that Cableuropa will convert the participative loans into common stock of Cableuropa. See "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."
- (4) EBITDA represents earnings before interests, taxes, depreciation and amortization, extraordinary and other non-cash items and minority interests. EBITDA is not a GAAP measure in either Spain or in the United States and should not be considered in isolation or as a substitute for, or as an alternative to, net income, operating income, cash flow from operations, other cash flow data or any other performance measures prepared in accordance with Spanish GAAP or U.S. GAAP. For additional information regarding the use of EBITDA, see "Presentation of Financial and Other Data—Non-GAAP Financial Measures."

A reconciliation between EBITDA and net profit/(loss) for the years ended December 31, 2001, 2002 and 2003 is set forth below:

	2001	2002	2003
	(euro in millions)		
Consolidated net profit/(loss)	(216.9)	(194.6)	97.0
Loss attributed to minority interests.....	(1.7)	(0.8)	0.0
Income tax credits	(97.1)	(174.7)	53.0
Net extraordinary (income)/expense	3.3	171.8	(298.2)
Net financial expense	146.9	96.8	130.2
Amortization of goodwill.....	13.8	13.4	13.4
Depreciation and amortization	80.8	98.3	102.5
Broadcast rights amortization	4.5	5.7	4.2
Other non cash items.....	9.1	0.0	0.0
Total adjustments to reconcile net profit/(loss) and EBITDA	159.7	210.4	5.1
Total EBITDA.....	(57.2)	15.8	102.1

- (5) EBITDA margin is calculated by dividing EBITDA for a particular period by the total revenues for that period. EBITDA margin is omitted when negative.
- (6) Capital expenditures refers to purchases of property and equipment.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF CABLEUROPA**

You should read the following information together with our audited consolidated financial statements and the related notes included in this offering memorandum beginning on page F-1. This discussion may contain 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 in the "Risk Factors" section above and elsewhere in this offering memorandum. 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 a leading provider of integrated telephony, broadband Internet, and cable television services to residential and business customers in Spain. We commenced operations in 1998 and, since that time, have pursued a strategy of rapid penetration generating multiple revenue streams to grow our business. As of December 31, 2003, we had 581,345 residential customers and 13,133, primarily small and medium-sized business customers. During the year ended December 31, 2003, we generated revenue of €358.6 million and EBITDA of €102.1 million, resulting in an EBITDA margin of 28.5%. During the nine months ended September 30, 2003, we generated revenue of €257.5 million and EBITDA of €67.9 million, resulting in an EBITDA margin of 26.4%. During the three months ended December 31, 2003, we generated revenue of €101.1 million and EBITDA of €34.2 million, resulting in an EBITDA margin of 33.8%.

Our 862 megahertz hybrid fiber coaxial network provides a high speed, high capacity, two-way communications pathway with direct access to our customers. As of December 31, 2003, our backbone network extended 6,362 route kilometers and our local networks extended 6,992 route kilometers, passing over 2.0 million homes. Our current addressable market is 5.6 million homes and 0.7 million businesses, representing approximately 27% of the 20.8 million homes and 25% of the 2.8 million businesses in Spain. We believe our franchise areas, especially those in our Mediterranean cluster, are growing rapidly both in the number of homes constructed each year and in gross domestic product per capita. We are continuing to expand our network in areas with attractive revenue potential.

Factors Affecting Our Business

Our residential services accounted for 91.8% of our total revenues for the year ended December 31, 2003. Business services accounted for the remaining 8.2% of our total revenues for the year ended December 31, 2003.

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			Percentage Change	
	<u>2001</u>	<u>December 31,</u> <u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Residential:					
Homes passed	1,399,514	1,760,744	2,003,233	25.8	13.8
Homes released to marketing.....	1,111,158	1,469,061	1,743,266	32.2	18.7
Percentage of homes passed	79.4%	83.4%	87.0%		
Penetration.....	30.1%	32.7%	33.3%		
Customers.....	333,997	480,296	581,345	43.8	21.0
ARPU (in euro) ⁽¹⁾	45.7	50.7	54.1	10.9	6.7
RGUs ⁽²⁾	626,374	887,504	1,082,715		
RGUs per customers	1.88	1.85	1.86		
Churn ⁽³⁾	12.9%	12.1%	13.7%		
Revenue (in euro millions).....	135.7	234.5	329.3	72.8	40.4
Business:					
Customers.....	4,829	8,648	13,133	79.1	51.9
ARPU (in euro) ⁽¹⁾	278.0	205.0	229.0	(26.3)	11.7
Revenue (in euro millions).....	7.9	19.0	29.3	140.5	54.2

- (1) ARPU is the monthly ARPU for the fourth quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."
- (2) RGUs are revenue generating units where each customer is counted as a revenue generating unit for each service for which such customer subscribes. See "Presentation of Financial and Other Data—Certain Operational Definitions."
- (3) Churn is a measure of the number of customers who stop using our services. For a definition of churn see "Presentation of Financial and Other Data—Certain Operational Definitions."

The following are the key factors affecting our business:

Customers. Our residential customer base (which includes small office and home office customers) increased by 21.0% and 43.8% in 2003 and 2002 respectively, reaching 581,345 customers as of December 31, 2003. This growth in residential customers reflects three factors: (i) increase in the number of homes passed, (ii) increase in the percentage of homes passed that have been released to marketing and (iii) the growth in the penetration of homes released to marketing. We have continued to build-out our network and increased the take-up of services in areas already built-out, which passed 2,003,233 homes as of December 31, 2003 compared to 1,760,744 homes as of December 31, 2002 and 1,399,514 homes as of December 31, 2001. In addition, the growth in customers reflects the improved efficiency with which we are able to release to marketing the homes passed, reaching 87.0% in 2003 versus 83.4% and 79.4% in 2002 and 2001, respectively. Penetration increased to 33.3% as of December 31, 2003, as compared with 32.7% as of December 31, 2002 and 30.1% as of December 31, 2001.

We continue to focus on improving our customer service and enhancing our service offerings to existing and new customers in an effort to manage our customer churn rate. Our churn rate was 13.7% in 2003 as compared with 12.1% in 2002 and 12.9% in 2001. We believe the increase in customer churn, particularly with respect to customer churn in 2003, reflects the impact of price increases during the periods.

Our focus on marketing to small and medium sized enterprises has resulted in an increase in our business customer base to 13,133 customers as of December 31, 2003 from 8,648 and from 4,829 as of December 31, 2002 and December 31, 2001 respectively.

ARPU. ARPU is a measure we use to evaluate how effectively we are realizing revenues from each of our customers. We have increased ARPU for residential services by 18.4% to €54.1 for the fourth quarter of 2003 from €50.7 for the fourth quarter of 2002 and €45.7 for the fourth quarter of 2001. This increase is attributable primarily to increased prices for many of our services. In addition, ARPU for residential services has increased as the proportion of our total residential customers subscribing to higher value broadband Internet access and digital television services has increased. We believe that our ability to offer bundled services packages which include a combination of some or all three of our services is proving attractive to our existing customer base and increases our ARPU for residential services by facilitating the sale of multiple services to each customer.

We have increased ARPU for business services to €229.0 for the fourth quarter of 2003, reflecting the introduction of our business bundled services and increased subscription by our business customers for sophisticated business products. ARPU for business services for the fourth quarter of 2002 decreased to €205.0 from €278.0 ARPU for the fourth quarter of 2001. This decrease reflected the increased number of small and medium sized enterprises in our customer base during 2002 which reduced the impact of several large corporate customers acquired in connection with our acquisition of Telia Iberia in 2001.

RGUs. As with ARPU, we use RGUs per customer as a measure of how effectively we are realizing potential revenues from each customer. We encourage our residential customers to subscribe to more than one service by offering a variety of packages, each of which includes a variable combination of telephony, Internet and cable television services at a price that is generally lower than the aggregate price of these services purchased on an individual basis from us or our competitors. We also offer our business customers packages that include a combination of voice and data services. As of December 31, 2003, approximately 18% of our total residential customers received three services and approximately 68% received either two or three services. However, while ARPU for residential services has increased during the periods under review, RGUs per customer have remained relatively stable at 1.86 RGUs per customer as of December 31, 2003 as compared with 1.85 RGUs per customer as of December 31, 2002 and 1.88 RGUs per customer as of December 31, 2001. We believe that ARPU has grown despite the stability in RGUs per customer because of the current preference of our customers for bundled services packages including telephony and higher value broadband Internet rather than telephony and cable television.

Results of Operations for the Years Ended December 31, 2001, 2002, and 2003

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

<u>Year Ended December 31,</u>	<u>Percentage Change</u>
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	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
	(euro in millions)				
Revenues	143.6	253.4	358.6	76.5	41.5
Operating expenses	(295.4)	(341.6)	(363.2)	15.6	6.3
Operating loss	(151.8)	(88.2)	(4.6)	(41.9)	(94.8)
Amortization of goodwill.....	(13.8)	(13.4)	(13.4)	(2.9)	—
Net financial expense.....	(146.9)	(96.8)	(130.2)	(34.1)	34.5
Net extraordinary income/(expense).....	(3.3)	(171.8)	298.2	n/a	n/a
Profit/(loss) before income tax and minority interests	(315.7)	(370.2)	150.0		
Income tax credit/(charge).....	97.1	174.7	(53.0)		
Profit/(loss) before minority interests	(218.6)	(195.5)	97.0		
Loss attributed to minority interest	1.7	0.8	—		
Net profit/(loss) for the year	(216.9)	(194.6)	97.0		

Revenues

Our revenues are derived from residential services (which are comprised of revenue from residential telephony, residential Internet and cable television services) and business services (which are comprised of voice and data services to business customers mainly in our franchise areas).

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

	<u>Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
	(euro in millions, except percentages)				
Residential services.....	135.7	234.5	329.3	72.8	40.4
Proportion of total revenues.....	94.5%	92.5%	91.8%	—	—
Business services	7.9	19.0	29.3	140.5	54.2
Proportion of total revenues.....	5.5%	7.5%	8.2%	—	—
Total revenues	143.6	253.4	358.6	76.5	41.5

Revenues from business services have increased as a proportion of our total revenues during the periods under review. This reflects the continued build-out of our network and our focus on marketing to the small and medium sized enterprise market. We expect that the proportion of our total revenues derived from business services will continue to increase.

Residential Services

Revenues derived from our residential services increased during the periods under review. The principal factors behind the increase in our revenue have been the substantial increase in our residential customer base due to the continued build-out of our network, the continued increase in penetration, increased prices for many existing services and the introduction of new higher value services. While telephony services continued to account for the largest portion of our revenues, the substantial increase in revenue from broadband Internet services and the launch of our digital television services have also had an impact on our revenues.

The following table sets forth revenues from each of our residential services and the proportion of total residential revenues generated by each service for each of the periods indicated.

	<u>Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>

(euro in millions, except percentages)

Residential telephony.....	79.3	133.1	184.0	67.8	38.2
Proportion of total residential revenue	58.4%	56.8%	55.9%	—	—
Residential Internet.....	18.1	39.1	62.3	116.0	59.3
Proportion of total residential revenue	13.3%	16.7%	18.9%	—	—
Cable television	38.3	62.3	83.0	62.7	33.2
Proportion of total residential revenue	28.2%	26.5%	25.2%	—	—
Total residential revenue	135.7	234.5	329.3	72.8	40.4

Residential Telephony. Our residential telephony revenues are comprised of monthly fees for line rental, usage charges, initial connection charges and fees for other telecommunications services, including charges for additional value added services.

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

	<u>As of and for the Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Residential Telephony:					
Customers.....	308,056	448,926	544,271	45.7	21.2
Penetration.....	27.7%	30.6%	31.2%	—	—
ARPU (in euro) ⁽¹⁾	28.4	30.8	31.4	8.5	1.9
Revenue (in euro millions).....	79.3	133.1	184.0	67.8	38.2

(1) ARPU is the monthly ARPU for the fourth quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."

Revenue from residential telephony services increased by 38.2% in 2003 and by 67.8% in 2002. The increase in 2003 primarily reflects the increase in our total residential telephony customer base as we continued to build-out our network, and the increase in penetration to 31.2% as of December 31, 2003, as compared with 30.6% as of December 31, 2002. ARPU during the fourth quarter of 2003 increased by 1.9% as compared with ARPU during the fourth quarter of 2002. The relative stability of ARPU during the period reflects increased monthly line charges offset by reduced call tariffs.

The increase in revenue derived from residential telephony during the year ended December 31, 2002 primarily reflects the increase in our total residential telephony customer base and the increase in penetration to 30.6% as of December 31, 2002 as compared to 27.7% as of December 31, 2001. In addition, ARPU increased by 8.5% during the fourth quarter of 2002 as compared with the fourth quarter of 2001 principally as a result of an increase in monthly line rental charges.

Residential Internet. Revenues from Internet services are derived mainly from fixed monthly fees and sales of cable modems.

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

	<u>As of and for the Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Residential Internet:					
Customers					
narrowband.....	48,964	24,317	12,619	(50.3)	(48.1)
broadband.....	37,155	117,305	186,447	215.7	58.9
Total.....	86,119	141,622	199,066	64.4	40.6
Penetration					

narrowband.....	4.4%	1.7%	0.7%	—	—
broadband.....	3.3%	8.0%	10.7%	—	—
Total.....	7.7%	9.7%	11.4%	—	—
ARPU (in euro) ⁽¹⁾					
all Internet services.....	26.2	30.2	32.7	15.3	8.3
narrowband.....	16.1	19.4	25.5	20.5	31.4
broadband.....	40.1	33.0	33.3	(17.7)	0.9
Revenue (euro in millions).....	18.1	39.1	62.3	116.0	59.3

(1) ARPU is the monthly ARPU for the fourth quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."

The increase in revenues during the periods under review principally reflects the increase in our customer base, higher total Internet penetration and the increasing proportion of broadband Internet customers. Our total Internet penetration increased to 11.4% in 2003 from 9.7% and 7.7% in 2002 and 2001, respectively. The increase in penetration primarily reflects the acquisition of new broadband Internet customers. As of December 31, 2003, approximately 93.7% of our total Internet customers subscribed to broadband Internet services as compared with approximately 82.8% as of December 31, 2002 and 43.1% as of December 31, 2001. We believe that broadband Internet services are an increasingly popular service for our customers and expect our penetration for this service to increase. ARPU for broadband Internet services during the fourth quarter of 2003 was significantly higher than ARPU for narrowband Internet services for the same period. However, ARPU for broadband Internet services came down to € 33.3 during the fourth quarter of 2003 as compared with €40.1 during the fourth quarter of 2001. As our customers typically purchase rather than rent their cable modems, the impact of the purchase price on ARPU was greater in 2001, when the proportion of new customers to total customers was substantially higher than in 2002 and 2003. While we continue to provide narrowband Internet service to our existing customers, we do not actively market this service to new customers. We are currently offering to migrate existing narrowband Internet customers to our broadband Internet service free of charge. Accordingly, we expect the number of our narrowband Internet customers to decrease and the proportion of customers using broadband Internet services to continue to increase in future periods.

Cable Television. Our cable television revenues are mainly derived from fixed fees, such as monthly subscription fees for basic and premium services, set top box rental charges and variable fees for pay-per-view services.

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

	<u>As of and for the Year Ended December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Cable Television:					
Customers					
analog services.....	232,199	296,956	296,095	27.9	(0.3)
digital services.....	—	—	43,283	—	—
Total.....	232,199	296,956	339,378	27.9	14.3
Penetration					
analog services.....	20.9%	20.2%	17.0%	—	—
digital services.....	—	—	2.4%	—	—
Total.....	20.9%	20.2%	19.4%	—	—
ARPU (in euro) ⁽¹⁾	18.0	21.2	23.1	17.8	9.0
Revenue (in euro millions).....	38.3	62.3	83.0	62.7	33.2

(1) ARPU is the monthly ARPU for the fourth quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."

The increase in revenues derived from cable television services during the year ended December 31, 2003 is principally due to the increase in our cable television customer base, and to the introduction of higher priced digital television services during the period. Total

penetration of cable television services declined slightly to 19.4% as of December 31, 2003 as compared to 20.2% as of December 31, 2002 and 20.9% as of December 31, 2001. As of December 31, 2003 approximately 12.8% of our total cable television customers were digital customers. ARPU increased during the fourth quarter of 2003 as compared with the fourth quarter of 2002 due to the introduction of higher priced digital television services and the growing use of pay-per-view television services by our digital television customers following our launch of near-video-on-demand services.

The increase in revenues derived from cable television services during the year ended December 31, 2002 principally reflects the growth of our cable television customer base. ARPU for the fourth quarter of 2002, increased to €21.2 as compared with ARPU for the fourth quarter 2001 of €18.0. The increase in ARPU primarily reflects the effect of price increases during the period.

Business Services

Revenues from business services are derived from fees paid by business customers, principally small and medium sized enterprises, for voice and data services, which we offer individually or as a package, and from telephony usage. Our focus on marketing to small and medium sized enterprises during the periods under review has resulted in an increase in our business customer base to 13,133 customers as of December 31, 2003 from 8,648 as of December 31, 2002 and 4,829 as of December 31, 2001.

	As of and for the Year Ended			Percentage Change	
	<u>December 31,</u>			<u>2001/2002</u>	<u>2002/2003</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>		
Business:					
Customers	4,829	8,648	13,133	79.1	51.9
ARPU (in euro) ⁽¹⁾	278.0	205.0	229.0	(26.3)	11.7
Revenue (in euro millions)	7.9	19.0	29.3	140.5	54.2

(1) ARPU is the monthly ARPU for the fourth quarter in each of the periods presented in the table. For a definition of ARPU see "Presentation of Financial and Other Data—Certain Operational Definitions."

The increase in revenues from business services during the year ended December 31, 2003 principally reflects the increase in our business services customer base as a result of the continued development of our network and an increased focus on acquiring small and medium sized enterprise customers. The increase in customers also reflects the introduction of our Oficina ONO bundled services, which offers different combinations of telephony and broadband Internet services to our business customers. ARPU increased by 11.7% during the fourth quarter of 2003 as compared with the fourth quarter of 2002 reflecting the growth in the number of customers taking more sophisticated tailored products.

While revenues from business services also increased substantially during the year ended December 31, 2002, reflecting a significant increase in our business services customer base during the period, ARPU during the fourth quarter of 2002 declined by 26.3% as compared with ARPU during the fourth quarter of 2001. This decrease reflected the increased number of small and medium sized enterprises in our customer base during 2002 which reduced the impact of several large corporate customers acquired in connection with our acquisition of Telia Iberia in 2001.

Operating Expenses

Our operating expenses are comprised of cost of services; selling, general and administrative expenses; costs capitalized as property and equipment and start-up costs; restructuring expenses; broadcast rights amortization; and depreciation and amortization. The following table sets forth our operating expenses and the percentage change from period to period for each of the periods indicated.

	As of and for the Year Ended			Percentage Change	
	<u>December 31,</u>			<u>2001/2002</u>	<u>2002/2003</u>
	<u>2001</u>	<u>2002</u>	<u>2003</u>		
	(euro in millions)				
Cost of services	74.3	85.7	105.6	15.3	23.2
Selling, general and administrative	188.5	180.8	166.1	(4.1)	(8.1)
Cost capitalized as property and equipment and start-up costs	(61.8)	(28.9)	(15.2)	(53.2)	(47.4)
Broadcast rights amortization	4.5	5.7	4.2	26.7	(26.3)

Depreciation and amortization.....	80.8	98.3	102.5	21.7	4.3
Restructuring and other related expenses.....	9.1	0.0	0.0	(100.0)	0.0
Total Operating expenses	295.4	341.6	363.2	15.6	6.3

Our operating expenses increased by 6.3% during the year ended December 31, 2003 to €363.2 million as compared with € 341.6 million during the year ended December 31, 2002 and by 15.6% from €295.4 million during the year ended December 31, 2001. The reduced rate of growth of our operating expenses reflects our continued efforts to control operating expenses and reduce cost of services as a proportion of revenue.

Cost of Services. Cost of services principally consists of interconnection and backbone network costs for telecommunications services, Internet connectivity costs, the cost of the cable modems we sell and programming fees for cable television programming services. Interconnection costs for telephony services are generated by calls made by our customers that terminate outside our network. Internet connectivity costs mainly consist of fees for the bandwidth used for our Internet transit outside of Spain. Cable television programming fees consist primarily of fees paid to commercial broadcasters to distribute their cable television content and fees paid to distribute movies and soccer on a pay-per-view basis. Cost of services increased steadily during the periods under review, which reflects the continued expansion of our business. However, our cost of services have decreased as a percentage of total revenues to 29.4% for the year ended December 31, 2003 as compared to 33.8% for the year ended December 31, 2002 and 51.7% for the year ended December 31, 2001. These decreases reflect economies of scale which have reduced our costs of interconnecting our telephony services, the renegotiation of contracts for Internet transit and cable television programming and the increased proportion of higher margin products, such as broadband Internet services, within our portfolio of services offered.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist principally of expenses related to wages and salaries, and other operating expenses, including rental expenses, professional services, marketing and selling expenses, network operation and maintenance, information systems, administrative overhead and billing costs. Selling, general and administrative expenses declined in absolute terms during the periods under review, and consequently declined more significantly as a percentage of total revenues. As a percentage of total revenues, selling general and administrative expenses were 46.3% in 2003, as compared with 71.3% in 2002. Selling general and administrative expenses exceeded revenues in 2001. The continued reduction in selling general and administrative expenses as a percentage of revenues reflects our focus on cost management despite the continued expansion of our business during the periods under review. In particular, wages and salaries and related social security expenses decreased by 2.0% during the year ended December 31, 2003 and by 7.6% during the year ended December 31, 2002 principally as a result of a regulated reduction of the workforce pursuant to which 236 employees were made redundant during 2002 and an additional 86 employees during 2003. In addition, we have reduced expenses relating to professional services and marketing and selling expenses during the periods under review. These decreases were offset by increased expenses relating to network operation and maintenance and customer service costs which continued to grow in line with the increase in the size of our networks and our customer base, although they decreased as a percentage of total revenues as we have leveraged the fixed cost nature of our business.

Costs Capitalized as Property and Equipment and Start-up Costs. We capitalize direct labor costs associated with the development and construction of our network. The decrease in costs capitalized as property and equipment and start-up costs during the periods under review reflects the slowdown in our network build-out as we complete the build-out of our network, as well as the change in our cost capitalization policy discussed under "—Critical Accounting Policies" below.

Restructuring and Other Related Expenses. We did not recognize any restructuring or other related expenses during the years ended December 31, 2003 and 2002. Restructuring and other related expenses during the year ended December 31, 2001 consisted primarily of restructuring expenses related to the downsizing of certain of our activities, including the discontinuation of the activities of ONOLab, an Internet content development subsidiary.

Broadcast Rights Amortization. Broadcast rights amortization principally relates to agreements entered into in 1999 for the supply of Spanish soccer pay-per-view programming. The agreements expired during the year ended December 31, 2003. Because the agreements provided broadcast rights to be used in periods extending over more than one year, the cost of the broadcast rights to be used in the future were initially accounted for as intangible assets and the corresponding amortization expenses were charged to our profit and loss account on a straight-line basis over the term of the agreement. Currently, none of our television programming contracts, including the extension of the agreement for the supply of soccer pay-per-view programming which terminates in 2009, require up-front payments and, accordingly there are no outstanding broadcast rights to be amortized.

Depreciation and 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. We depreciate our assets on a straight-line basis and use estimated useful lives of ten to twenty-five years for our networks, and six to seven years for our customer premise equipment. The increase in depreciation and amortization expense reflects our continuing investment in property, plant and equipment as we continue the construction of our network.

Operating Loss

We calculate operating loss as revenue minus operating expenses. Operating losses decreased by €83.6 million to €4.6 million during the year ended December 2003 and decreased by €63.6 million to € 88.2 million during the year ended December 31, 2002. The decrease in operating losses in 2003 and 2002 reflects the increase in revenues which outweighed the increase in operating expenses during the periods under review.

Amortization of Goodwill

Prior to November 1999, Cableuropa owned between 28% and 89% of its cable and telecommunications subsidiaries. The remaining interests were held by Spanish Telecommunications Limited S.à.r.l. ("Spaincom") and various other minority shareholders comprised principally of regional financial institutions, regional media groups and local businesses. In 1999, Cableuropa started a reorganization process to merge its operating subsidiaries into Cableuropa and to simplify its shareholder structure. Between 1999 and 2001 most of the minority shareholders, as well as Spaincom, exchanged their interest in the relevant subsidiary for ordinary shares of Cableuropa. Thereafter, our wholly owned operating subsidiaries were merged into Cableuropa, which acquired all of their assets and liabilities.

We amortized €13.4 million of goodwill during the year ended December 31, 2003, in line with the amortization of goodwill in the prior period. We amortized €13.4 million and €13.8 million in goodwill during the years ended December 31, 2002 and 2001, respectively. See "— Critical Accounting Policies—Goodwill" for additional details.

Net Financial Expense

Net financial expense is comprised of financial expense net of financial income. The following table sets forth these items and the percentage change from period to period for each of the periods indicated.

	<u>As of and for the Year Ended</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
	(euro in millions)				
Financial income.....	41.7	74.2	3.3	77.9	(95.6)
Financial expense.....	(188.6)	(170.9)	(133.6)	(9.4)	(21.8)
Net financial expense	(146.9)	(96.8)	(130.2)	(34.1)	34.5

Financial Income

Financial income decreased by 95.6% during the year ended December 31, 2003 to €3.3 million, as compared to €74.2 million during the year ended December 31, 2002. This decrease primarily reflects the effect of our re-assessment of the value of the Equity Value Certificates ("EVCs") in 2002. EVCs entitle the holder to a cash payment linked to the value of our ordinary shares that is payable in certain limited circumstances, most significantly an initial public offering of our ordinary shares. We assess the value of the EVCs at the end of each quarter and we recognize the gain or loss associated with any decrease or increase in the related liability as financial income or expense, as the case may be. During the year ended December 31, 2002 we assessed the value of our EVC liability in a manner consistent with the significant reduction in worldwide valuations of cable assets. The resultant decrease in our EVC related liability resulted in the recognition of €51.5 million of financial income during the year ended December 31, 2002.

Financial income increased by 77.9% during the year ended December 31, 2002 to €74.2 million principally as a result of the decrease in value of our EVC liability, as well as to realized foreign exchange rate gains.

Financial Expense

Financial expense decreased by 21.8% during the year ended December 31, 2003 to €133.6 million, as compared to €170.9 million during the year ended December 31, 2002. This decrease was principally due to lower interest expense following the cancellation of a significant proportion of our Existing Notes as a result of our recapitalization transaction described below, partially offset by a loss on its associated foreign exchange derivative instruments, and by increased interest expense associated with the increased drawings under our Senior Bank Facility and by the interest on the GCO Loan. Financial expense decreased by 9.4% during the year ended December 31, 2002 to €170.9 million, as compared to €188.6 million during the year ended December 31, 2001. This decrease principally related to beneficial movements in the exchange rate between the euro and the dollar.

Net Extraordinary Income/(Expense)

We recognized net extraordinary income of €298.2 million during the year ended December 31, 2003. The principal components of this net extraordinary income were:

- Extraordinary income of €313.6 million resulting from the cancellation of the purchased Existing Notes in February 2003, as explained below;
- Extraordinary expense of €14.4 million related to the write-off and provision for depreciation of tangible assets; and
- Extraordinary expense of €6.2 million related to the write-off and provision for depreciation of intangible assets,

We recognized net extraordinary expense of €171.8 million during the year ended December 31, 2002. The principal components of this net extraordinary expense are:

- Extraordinary expense of €139.9 million related to the write-off of capitalized start-up costs;
- Extraordinary expense of €34.3 million related to the depreciation of analog set-top boxes ("decoders") in anticipation of the introduction of digital television;
- Extraordinary expense of €10.9 million relating to a provision in connection with our decision to discontinue our operations in Portugal; and
- Extraordinary income of €16.7 million relating to the accounting application of the provision for potential future costs under our phantom stock option plan.

We recognized no significant net extraordinary expense or income during the year ended December 31, 2001.

Income Tax

Since it commenced operations, the ONO Group has incurred losses in every year except 2003 and recognizes tax credits in its financial statements. During the year ended December 31, 2003, we had a taxable profit of € 164.3 million, as a result of extraordinary income during the period, which we expect will reduce our tax loss carryforwards to €943.3 million. As of December 31, 2003 we had net tax credits of € 245.0 million. Under Spanish corporate income tax law, tax losses can generally be carried forward for up to 15 years from the date such losses

where incurred. We do not anticipate paying any income taxes for the next several years, as we expect to generate further tax losses in the future, and our outstanding tax loss carry forwards can be used to offset any future taxable income.

Liquidity and Capital Resources

Our liquidity requirements arise primarily to meet our ongoing debt service obligations and to fund our planned network build-out, working capital requirements and expected operating losses until the time when we expect to achieve positive cashflow. We do not expect to achieve positive cashflow before the end of 2005. Our principal sources of funds are cashflow from operations, borrowings under our Senior Bank Facility and borrowings under other financing agreements. Subject to no material changes in our operations or in our operating environment, we believe that our sources of funding will be sufficient to fund our liquidity requirements.

We have commenced discussions with a number of banks with regard to the refinancing of our Senior Bank Facility in order to extend the maturity of this facility and delay the commencement of debt amortizations. We believe that if we are successful in refinancing our Senior Bank Facility on these terms we will be able to apply our available capital to the continued build-out of our network and the development of our business.

While we currently expect to complete the refinancing of our Senior Bank Facility by the end of 2004 or early 2005, there can be no assurance that we will be able to achieve a refinancing of the Senior Bank Facility on terms acceptable to us or at all. See "Risk factors—Risks Related to our Financial Profile—We may not generate sufficient cash flow to fulfill our debt obligations, including payments related to the Multi-Borrower Credit Facilities, and the Notes Proceeds Loans."

Recapitalization and Extraordinary Income

Beginning in May 2002 and concluding in February 2003, we effected the cancellation of a significant portion of the Existing Notes through a series of transactions between GCO, ONO Finance and us, as follows:

- Between May and October 2002, GCO purchased, at a discount to par, approximately €155.0 million in aggregate principal amount of Existing Notes in the open market;
- On November 20, 2002, GCO announced a tender offer for the Existing Notes, pursuant to which GCO acquired approximately €378.0 million in aggregate principal amount of Existing Notes;
- On February 13, 2003, GCO transferred approximately € 503.0 million in aggregate principal amount of the Existing Notes it had purchased (the "Purchased Existing Notes") to us for a total consideration of approximately €164.0 million. This consideration was comprised of: €47.4 million in cash (which we financed from an additional borrowing of €22.1 million under our Senior Bank Facility and € 25.3 million in cash released from an escrow account related to the Senior Bank Facility), €98.5 million from a loan from GCO (the "GCO Loan"), and the cancellation of a pre-existing loan to GCO from us; and
- On February 13, 2003, we transferred the Purchased Existing Notes to ONO Finance in exchange for a reduction in the principal amount due to ONO Finance under our Multi-Borrower Credit Facilities equal to the aggregate principal amount of the Purchased Existing Notes. ONO Finance subsequently cancelled the Purchased Existing Notes.

As a result of those recapitalization transactions, we recognized extraordinary income of €313.6 million during the year ended December 31, 2003.

We also expect to use the proceeds of this offering to purchase additional Existing Notes tendered in the Tender Offer. See "Use of Proceeds." Unlike our Recapitalization, the Existing Notes purchased in the Tender Offer will be purchased at a price equal to their principal amount plus a premium. Accordingly, we do not expect the Tender Offer to result in an extraordinary gain in 2004.

Historical Cashflows

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

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(euro in millions)		
Net cash provided/(used) by operating activities.....	(252.5)	(176.8)	49.7

Net cash used by investing activities.....	(372.1)	(256.6)	(195.0)
Net cash provided by financing activities.....	620.8	424.5	145.1

Net cash provided (used) by operating activities. Our net cash provided/(used) by operating activities has continuously improved in 2002 and 2003, mainly as a result of the improvement in our operating results. Though in 2002 and 2003 we incurred operating losses mainly due to the effect of depreciation and amortization and other non-cash charges, which do not affecting our net cash provided/(used) by operating activities.

In addition, in 2003 changes in our working capital provided additional cash from operating activities since the decrease in our operating liabilities was surpassed by the decrease in our operating assets. On the other hand, changes in our working capital in 2002 reduced the improvement of our net cash provided/(used) by operating activities, mainly due to the increase in our accounts receivable.

Net cash used by investing activities. Cash outflows for investing activities declined during the year ended December 31, 2003 due to the €53.1 million decrease in capital expenditures during the year ended December 31, 2003 as compared to the year ended December 31, 2002.

Cash outflows for investing activities declined during the year ended December 31, 2002 due to the €108.0 million decrease in capital expenditures during the year ended December 31, 2002 as compared to the year ended December 31, 2001.

Net cash provided by financing activities. Net cash provided by financing activities declined during the years ended December 31, 2003 and 2002 due to the enhancement of our cash provided by operating activities and the reduction in our capital expenditures that resulted in a decrease in total borrowings and the repayment of certain debt, including the repurchase of certain of the Existing Notes.

Capital Expenditures

Our business is capital intensive. We incurred capital expenditures of € 198.6 million, €251.7 million and €359.7 million, during the years ended December 31, 2003, 2002 and 2001 respectively. This capital expenditures was funded primarily from drawings under our Senior Bank Facility, shareholder contributions and the proceeds of the 2011 Notes.

In 2004, we anticipate capital expenditure of between €200 million and €220 million. This amount is principally related to network build-out, set-top boxes and installations. A substantial portion of this capital expenditure relates to the discretionary extension of our network. In the short term, we believe we could defer a significant portion of these discretionary costs if liquidity were limited before significant network performance issues would arise. In the longer term, we would need to continue a certain level of investment to maintain the level of service and performance we seek to offer our customers.

Financing Arrangements

In addition to cash flow from our operating activities, our other sources of liquidity include short and long term debt facilities and cash on hand. As of December 31, 2003 our total indebtedness was approximately € 1,065.7 million, of which €98.5 million was incurred under the GCO Loan. In addition, we had available but undrawn funds of approximately €186.7 million and cash on hand of approximately € 1.3 million. We expect to incur additional indebtedness principally from drawings under the Senior Bank Facility to fund net losses (including, as necessary, interest on the Senior Bank Facility itself) and the build-out of our networks. The following table sets forth amounts available to us but un-drawn as at December 31, 2003:

<u>Source of financing</u>	Amount available(euro in millions)
Senior Bank Facility.....	160.0
State subsidies	1.0
VAT discounting facility	0.3
Other short term credit facilities	25.4
Total amount available.....	186.7

As of December 31, 2003 we had drawn €515.0 million under our Senior Bank Facility. As of January 1, 2004, the total principal amount available under the Senior Bank Facility increased to €750.0 million. As of December 31, 2003 we had outstanding performance guarantees supported by letters of credit issued by a number of Spanish banks in the aggregate amount of €49.8 million. In addition, as of December 31, 2003

(1) See "Off-Balance Sheet arrangements—Currency Swap" below.

A number of these contracts are subject to changes related to variables such as the length, price and payment conditions, inflation, foreign exchange rate variations, as well as other factors that may cause the amounts in the table above to vary.

Lease obligations Lease obligations relate to operating leases including fiber-optic network leases from RENFE and Iberdrola, and office and network related real estate leases. Purchase obligations Purchase obligations principally relate to cable television programming purchase obligations, customer premise equipment purchase commitments and commitments with our network equipment and construction suppliers. These commitments include €24.8 million for the purchase of tangible assets. Equity Value Certificates ("EVCs") In connection with the issue of the 2009 Notes and the 2011 Notes, ONO Finance issued EVCs. The EVCs entitle their holders to receive cash in an amount equal to the market value of a fixed number of our shares. The percentage of our share capital to which the holders of EVCs are entitled can be diluted under certain circumstances. The EVCs mature on May 31, 2009 and February 15, 2011. However, in certain circumstances (such as an initial public offering of Cableuropa) we may be required to redeem the EVCs prior to their maturity.

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

At the time of each EVC issue and each EVC funding agreement, we accounted for a liability in an amount equal to the EVC proceeds received. The current value of the liability depends on the estimated market value of our shares, and accordingly the book value of these liabilities are subject to change. The resulting gain or loss in the book value of our EVCs is recognized as other financial income or expense in our profit and loss account. We value the EVCs at the end of each quarter and we recognize the gain or loss associated with the decrease or increase in the related liability as financial income or expense, as the case may be. As of December 31, 2003 the EVCs were valued at €25.5 million.

Off-Balance Sheet Arrangements

Currency Swap

In July 2002 the ONO Group entered into a swap agreement, with Deutsche Bank as counterparty, to hedge 50% of the coupon payments on the principal amount originally issued of the 2011 USD Notes until their first call date in February 2006. The dollar to euro exchange rate resulting from the swap agreement is €1.00 = \$0.9538. For more information and fair value analysis, see "—Quantitative and Qualitative Disclosure about Market Risk."

Guarantees

We have secured guarantees from Spanish credit institutions that guarantee our compliance with specific network construction commitments under our cable television and telecommunications licenses as well as our repayment of the State subsidies. These guarantees were granted to, among others, the Spanish Ministry of Industry, Tourism and Commerce, City Councils and other organizations. As of December 31, 2003, our guarantees amounted to €49.8 million, out of which €21.6 million were guarantees for the repayment of the State subsidies. As a result of the partial conversion of cable telecommunications licenses into telecommunications service licenses, €16.0 million of these guarantees were cancelled during the first quarter of 2004 and a further €1.8 million are expected to be cancelled during the second quarter of 2004.

Research and Development, Patents and Licenses

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

We do not have any material patents or copyrights nor do we believe that patents play a material role in our business. We own and have the right to use registered trademarks, which are of material importance to our business, including the "ONO" logo. We have also been granted concessions for our cable franchises in Spain. We incurred license costs in connection with these franchises that are recorded in our balance sheet as intangible assets. As of December 31, 2003, the net book value of these license costs was € 5.6 million.

Quantitative and Qualitative Disclosure about Market Risk

Market risk represents the risk of changes in the value of financial instruments, derivative or non-derivative, caused by fluctuations in foreign currency exchange rates and interest rates.

It is our treasury policy to monitor and manage exposure to variable interest rate risk and foreign currency exchange rate risk by

managing the amount of our outstanding variable interest bearing debt and foreign currency liabilities. In order to reduce such interest rate risk and foreign currency exchange rate exposure, and as market conditions warrant, we and our affiliates may enter into currency or interest rate hedging transactions and may purchase or trade the Notes or the Existing Notes from time to time in privately negotiated or open market transactions using funds available to us.

Interest Rate Sensitivity

Borrowings under our Senior Bank Facility bear interest at a floating rate determined by reference to EURIBOR plus a margin, which currently ranges from 3.0% to 4.5% depending on the tranche. In addition, our other outstanding debt with credit entities, usually bear interest at EURIBOR plus a margin. Accordingly, as at December 31, 2003 we had variable interest rate debt outstanding of €515.0 million and exposure to risk due to fluctuations of interest rates.

In addition, to our outstanding variable interest bearing debt, the Floating Rate Notes offered in this offering memorandum will also bear interest at a floating rate. Historically, we have not entered into interest rate swap agreements to hedge our exposure to variable interest rate obligations. However, it is our current intention to enter into interest rate hedging transactions with respect to some or all of our variable interest rate debt following completion of this offering.

Foreign Exchange Rate Sensitivity

2009 and 2011 USD Notes

The table below shows the annual payments of interest and principal on our outstanding foreign currency denominated debt.

	<u>Expected maturity date</u>						<u>Total</u>	<u>Fair value⁽¹⁾(euro in millions)</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>		
Interest payments on the 2009 USD Notes	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)	(6.0)	(65.9)	
Interest payments on the 2011 USD Notes	(11.7)	(11.7)	(11.7)	(11.7)	(11.7)	(29.2)	(87.7)	
2009 USD Notes	—	—	—	—	—	(92.1)	(92.1)	(75.8)
2011 USD Notes	—	—	—	—	—	(83.5)	(83.5)	(69.5)

(1) Fair value of the relevant Existing Notes has been calculated applying the official exchange rate published by the ECB on December 31, 2003 of € 1.00 = U.S.\$1.2630 to the market value of the principal on the relevant Existing Notes as of December 31, 2003.

Cross-currency Swap and Euro Call/Dollar Put option Agreements

The following table sets forth a calculation of the expected cash flows of our cross-currency swap agreements as of December 31, 2003 (at the official exchange rate published by the ECB of dollar 1.2630 per euro 1.00):

	<u>Expected maturity date</u>					<u>Thereafter</u>	<u>Total</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		
Payment of principal on the 2004 cross-currency swaps ⁽¹⁾ ...	(25.3)	—	—	—	—	—	(25.3)
Payment of cross currency swap on interest payments on the 2011 USD Notes ⁽²⁾	(3.6)	(3.6)	(1.8)	—	—	—	(9.0)
Collections on euro call/dollar put option ⁽³⁾	8.4	—	—	—	—	—	8.4

- (1) Corresponds to the outstanding swap agreements dated May 18, 2000 with maturity in May 2004. As of December 31, 2003, the fair value of these swap agreements amounts to euro (24.2) million, considering the margin calls paid as explained below.
- (2) The fair value of this swap amounts to euro (8.5) million as of December 31, 2003.
- (3) As the foreign exchange rate as of December 31, 2003 was higher than the strike exchange rate of the option there are expected collections. The fair value of the euro call/dollar put option as of December 31, 2003 is euro 7.9 million.

Cross-currency Swap Agreements and Euro call/dollar put option related to the 2009 USD Notes

On May 18, 2000 we entered into an arrangement with Bank of America N.A. and Toronto Dominion Bank for the swap of amounts equivalent to those payable under the 2009 USD Notes to euros. Under these swap arrangements, these banks bear the debt denominated in dollars until May 1, 2004 plus the relevant interest payable in dollars from maturity of the restricted deposits to that date and, in exchange, we assume a debt with identical maturities with these banks amounting to €308.3 million in respect of the principal and €75.8 million in respect of interest. The exchange rates used to carry out this swap transaction were €1.00 = \$0.8920 and €1.00 = \$1.1714 for the principal and interest, respectively.

The nature of the foreign exchange swaps was such that if there were significant increases in the value of the euro against the dollar, we were required to advance margin calls to the two swap counterparty banks. In the first half of 2003, as the euro increased in value, we advanced a total of €39.1 million in margin calls.

The swap agreements, as modified in May 2003, provided that all of the margin calls are applied in reduction of the principal amount in euros that is due for exchange at maturity of the swaps. The new amount that we must pay to the swap counterparties on maturity of the swaps would be therefore € 268.3 million.

In view of this potential liability, and the evolution of the euro/dollar exchange rate, we purchased a euro call/dollar put option from the swap counterparty banks on June 2, 2003 to cap the potential cash loss that we could face on maturity of the swaps. As a result of the purchase of this euro call/dollar put option, with the strike at €1.00 = \$1.1729 on May 1, 2004, the maximum additional level of the exposure was limited to € 33.9 million. The cost of the option was approximately €8.7 million.

On July 11, 2003 we agreed with the two swap and option counterparty banks to unwind 25% of the principal of the 2004 cross-currency swaps and 100% of the hedged coupons remaining, which correspond to the interest payments in November 2003 and May 2004. In addition, we agreed to cancel 25% of the euro call/dollar put option in line with the partial unwind of the principal on the swaps. In addition, on August 21, 2003 we unwound an additional 25% of the principal on the 2004 cross-currency swaps and of the euro call/dollar put option.

The net cost of unwinding the swaps and the euro call/dollar put option was €7.4 million for both transactions.

As a result of the two unwind operations the maximum additional level of the exposure on May 1, 2004 has been reduced to €16.9 million.

Cross-currency Swap Agreement on the 2011 USD Notes

On July 3, 2002, we reached an agreement to hedge 50% of the foreign exchange exposure on interest payments on the original issue amount of the 2011 USD Notes, from February 13, 2003 to February 13, 2006. Under this agreement, the counterparty agreed to pay us interest at an annual rate of 14% on \$100 million and we agreed to pay interest at an annual rate of 14.365% on €102.2 million on the same dates.

Effect of the Tender Offer

ONO Finance has announced a Tender Offer for the Existing Notes. To the extent that dollar denominated 2011 Notes are tendered and purchased in the Tender Offer, we may seek to reduce our obligations under our outstanding cross-currency swap agreement.

Critical accounting policies

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

Goodwill

As a result of our corporate reorganization described above, we acquired additional shareholdings in certain of our subsidiaries. Goodwill reflects the positive difference between the book value of the parent company's direct or indirect shareholdings in subsidiaries and the value of the portion of the subsidiaries' net equity which is attributable to those shareholdings, adjusted for any latent capital gains at the date of the acquisition. The goodwill calculation requires certain estimates with respect to the value of such subsidiaries and thus involves significant discretion. However, in order to comply with Spanish regulation, an independent expert report on such value was obtained at the time the goodwill was recorded. Under Spanish GAAP, goodwill on consolidation is amortized on a straight-line basis over 20 years as this is considered to be the average payback period for the investments concerned.

Tax Credits

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

Income and Expenses

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

Valuation of Equity Value Certificates and Stock Option Plan

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

Cost Capitalization

Prior to 2002, we booked costs incurred during the prematurity period as start-up costs. We considered the prematurity period as the period in which network construction increases faster than the company's commercial operations. Cable multiservice operators have a significant portion of idle capacity during the starting years of operations, as substantial completion of the network construction is needed before commercial launch of services. We estimated a different prematurity period for each franchise depending on the size of that franchise area, density of population and planned network rollout period.

As a consequence of the changes occurring in the telecommunications sector, as well as changes in the circumstances of the Group, particularly at the end of year 2002, and considering our intention to converge over time with International Financial Reporting Standards, we modified the accounting criteria related to the depreciation of start-up costs during the year 2002, writing them off completely. This change in accounting criteria resulted in an extraordinary charge of €139.9 million in 2002.

Effect of Inflation

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

New Accounting Standards

No new Spanish GAAP standards have been issued that significantly affect our financial statements.

BUSINESS

Overview

We are a leading provider of integrated telephony, broadband Internet, and cable television services to residential and business customers in Spain. We commenced operations in 1998 and, since that time, have pursued a strategy of rapid penetration generating multiple revenue streams to grow our business. As of December 31, 2003, we had 581,345 residential customers and 13,133 primarily small and medium-sized business customers. During the year ended December 31, 2003, we generated revenue of €358.6 million and EBITDA of €102.1 million, resulting in an EBITDA margin of 28.5%. During the nine months ended September 30, 2003, we generated revenue of €257.5 million and EBITDA of €67.9 million, resulting in an EBITDA margin of 26.4%. During the three months ended December 31, 2003, we generated revenue of €101.1 million and EBITDA of €34.2 million, resulting in an EBITDA margin of 33.8%.

Our 862 megahertz hybrid fiber coaxial network provides a high speed, high capacity, two-way communications pathway with direct access to our customers. As of December 31, 2003 our backbone network extended 6,362 route kilometers and our local networks extended 6,992 route kilometers, passing over 2.0 million homes. Our current addressable market is 5.6 million homes and 0.7 million businesses, representing approximately 27% of the 20.8 million homes and 25% of the 2.8 million businesses in Spain. We believe our franchise areas, especially those in our Mediterranean cluster, are growing rapidly both in the number of homes constructed each year and in gross domestic product per capita. We are continuing to expand our network in areas with attractive revenue potential.

The following table includes information regarding the build-out and reach of our network:

	<u>As at December 31,</u>			<u>Percentage Change</u>	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001/2002</u>	<u>2002/2003</u>
Infrastructure:					
Local access network (route kilometers)	5,135	6,279	6,992	22.3	11.4
Backbone network (route kilometers)	5,712	6,263	6,362	9.6	1.6
Cities with service.....	60	81	98	35.0	21.0
Homes passed	1,399,514	1,760,744	2,003,233	25.8	13.8
Homes released to marketing.....	1,111,158	1,469,061	1,743,266	32.2	18.7
Percentage of homes passed	79.4%	83.4%	87.0%	—	—

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

- *Residential Telephony.* We provide local, national and international telephony services to 544,271 customers, representing 31.2% penetration in our franchise areas as of December 31, 2003. In 2003, our residential telephony revenues were €184.0 million. ARPU for our residential telephony services for the fourth quarter of 2003 was €31.4.
- *Residential Internet.* We are a leading provider of residential broadband Internet services in our franchise areas. Our broadband Internet customer base grew by approximately 59% in 2003, resulting in 186,447 broadband Internet customers and representing 10.7% penetration as of December 31, 2003. In 2003, our total Internet revenues were €62.3 million. ARPU for our total Internet services for the fourth quarter of 2003 was €32.7.
- *Cable Television.* We are a leading provider of pay television services in Spain with 339,378 customers, representing 19.4% penetration as of December 31, 2003. We offer a wide selection of digital and analog cable television programming from basic to premium packages. Each of our programming packages also provides easy access to our pay-per-view services. In 2003, our cable television revenues were € 83.0 million. ARPU for our cable television services for the fourth quarter of 2003 was €23.1.
- *Business Services.* We provide voice and data telecommunication services principally to small and medium sized enterprises, although our business customers also include several larger corporate clients and public institutions. As of December 31, 2003 we had 13,133 business customers. The number of our business customers increased by approximately 52% during 2003. In 2003, our business services revenues were €29.3 million. ARPU for our business services for the fourth quarter of 2003 was €229.

Key Strengths

We believe that our competitive strengths will enable us to benefit from the substantial demand for integrated communications services in our franchise areas. Our competitive strengths include:

- *Proven ability to acquire subscribers.* As a customer focused organization with an effective marketing strategy, we have achieved rapid growth of customers and penetration. As of December 31, 2003, we had achieved an overall customer penetration rate of 33.3%. Our experience shows that penetration rates have continued to increase in franchise areas where the build-out is substantially complete. This is highlighted by the fact that our penetration rate has risen to over 40% in areas, such as Cádiz and Albacete, where we have marketed our services for more than four years.
- *Ability to provide bundled services.* We currently provide a variety of bundled service offerings in order to maximise revenues from each of our customers. Our bundled services are comprised of a combination of some or all of our services, offering our customers the convenience of having a single provider for their communication, entertainment, and information needs. By offering bundled services, we can price our services more aggressively than individual services offered by our competitors. We believe this results in higher customer loyalty and increased penetration. As of December 31, 2003, 68% of our residential customers were purchasing bundled services, out of which 26% were subscribing to a combination of all three of our services. At that date we had achieved penetration rates of 31.2%, 11.4% and 19.4% for residential telephony, Internet and cable television services, respectively, resulting in RGUs per residential customer of 1.86.
- *Technologically advanced broadband network.* Our 862 megahertz network provides a high speed, high capacity two-way communications pathway with direct access to the customer. This allows us to offer multiple services and will allow us to deliver new broadband services, such as interactive digital television services and video-on-demand with limited additional cost.
- *Ability to control costs.* We believe that our ability to control costs is an important element of both our operating and financial performance. We believe that the level of capital expenditure necessary to make our networks accessible to each additional home passed in Spain is significantly lower than that of many comparable European companies during a similar stage of their development. This is primarily due to the high urban population density in Spain; our ability to build portions of our network above ground; and our ability to efficiently obtain local access and rights of way permits from local authorities. To further control and reduce our operating costs, we focus on streamlining our business processes, renegotiating supplier contracts and the outsourcing of certain functions.
- *Highly-skilled management team.* Our management team has extensive experience in managing telecommunications and media companies in Spain, other countries in Europe, the United States and Canada. Eugenio Galdón, the founder of Cableuropa, was instrumental in the liberalization of the Spanish telecommunications and cable television markets and has managed several of Spain's largest media companies. Richard Alden, our Chief Executive Officer, joined us in 1998 and has extensive experience with cable telecommunications companies in the United Kingdom and the United States.
- *Strong shareholder support.* Our shareholders provide us with a strong financial commitment and local and international perspectives. Since we commenced operations in 1998, our shareholders have collectively contributed approximately €940 million (including the €98.5 million loan from GCO, which will be converted into common stock of Cableuropa). Our shareholders also contribute Spanish market understanding, financial expertise, and important relationships with regulators, governmental authorities, suppliers, and customers. Our shareholders include Banco Santander Central Hispano, Bank of America Corporation, Capital Communications CDPQ, General Electric, Grupo Ferrovial and Grupo Multitel.
- *Strong brand recognition.* A key element of our marketing strategy is capitalizing on the fact that ONO is a well-recognized brand in our areas of operation and in Spain. In 2002, prompted and unprompted brand awareness of ONO in the main cities in which we offer service was 100% and 89%, respectively.

Our Strategy

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

- *Increasing cash flow generation and maximizing our return on capital employed;* through the following strategies: *Increasing Penetration.* We believe that the acquisition of new customers in our franchise areas is critical to the success of our business plan. Our strategy is to increase penetration in our franchise areas by offering bundled services to attract new customers by providing them with a single solution to their communication, entertainment and information needs at competitive prices. In key cities where we have marketed for more than four years, such as Cádiz and Albacete, we have already achieved penetration

rates in excess of 40%. We believe that this is due to our continued marketing efforts within our franchise areas following the substantial build-out of the relevant network, and illustrates our belief that there is significant customer growth potential within our existing base of homes released to marketing. *Cross-Selling and Up-Selling to Our Existing Customer Base*. We intend to use our existing customer relationships to sell additional products and services to our customers or migrate them to higher value services, which we refer to as "up-selling." In particular, we intend to encourage our customers to subscribe for additional services by offering bundled services at prices that are lower than prices for the same services provided by our competitors or by us on an individual basis. In addition, we believe that providing existing customers with a variety of new and enhanced services with tiered pricing options encourages our customers to take more than one of our services. *Leveraging Our Network to Provide Business Services*. Our strategy is to grow our customer base among small and medium sized businesses within our franchise areas by capitalizing on our technologically advanced network and success in marketing bundled services. During 2003, we introduced the Oficina ONO product that offers a combination of telephony and broadband Internet services to our business customers. In addition, we are selectively increasing the number of larger corporate business service customers within our franchise areas by offering tailored voice and data solutions. We have recently been awarded contracts to provide voice and data services for the public sector including the City Council of Valencia, the third largest city in Spain, and the Authority of the Island of Mallorca.

- *Continued improvement of our financial structure*. Our management and shareholders are committed to ensuring that we have an appropriate capital structure, taking into account available growth opportunities. We focus on growing our EBITDA at a faster rate than our use of additional debt, thereby reducing our total debt to EBITDA leverage ratio. We will not however simply rely on growing our EBITDA to improve our financial profile. We will also seek to carry out a series of financial transactions, of which the current Refinancing Transactions are examples, with the goal of reducing our cost of debt, extending our debt maturities and improving financial flexibility.

Our Products and Services

We currently provide our residential and business customers with a broad array of competitive broadband products and services.

Residential Services

The table below sets out certain information with respect to our residential service customers:

	<u>As of December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Telephony customers.....	308,056	448,926	544,271
Broadband Internet customers	37,155	117,305	186,447
Narrowband Internet customers	48,964	24,317	12,619
Cable television customers	232,199	296,956	339,378
Total residential customers.....	333,997	480,296	581,345
Penetration:			
Residential telephony.....	27.7%	30.6%	31.2%
Broadband Internet.....	3.3%	8.0%	10.7%
Cable Television	20.9%	20.2%	19.4%
Total residential customers.....	30.1%	32.7%	33.3%

(1) A customer may subscribe for residential telephony, residential Internet, cable television, or a combination of all three services.

Bundled Services

In order to maximize the revenue from each home passed, we actively encourage customers to subscribe to more than one service by offering price savings and the convenience of having a single supplier and a single point of contact for all communication, entertainment, and information needs. Customers who subscribe for more than one service currently pay on average between 17% and 40% less than the aggregate cost of subscribing for our relevant services on an individual basis.

In addition, initial connection and installation charges are currently waived for all customers subscribing to any of our bundled services.

We currently offer the following bundled services all of which include a telephony line:

	Television package	Premium Gran Via channels	Telephony	Broadband	Monthly charge⁽¹⁾
<i>Telephony & Broadband Internet</i>					
150 kbps bundle.....	—	—	#	150 kbps	€43.80
300 kbps bundle.....	—	—	#	300 kbps	€46.85
<i>Digital Television⁽²⁾</i>					
ONO 2000D.....	ORO D	—	#	— 150 kbps 300 kbps	€27.90 €54.80 €57.85
ONO 4000D.....	PLATINUM D	—	#	— 150 kbps 300 kbps	€39.90 €66.80 €69.85
ONO 6000D.....	DIAMANTE D	#	#	— 150 kbps 300 kbps	€54.90 €81.80 €84.85
ONO Total D	DIAMANTE D	#	#	1 Mbps	€89.90

(1) We charge an additional fee of €6.49 per month for a decoder, and there are other charges for cable modems, phone terminals, and other equipment, as appropriate.

(2) Since the launch of our digital television services in 2003, we discontinued the marketing of our analog services. We continue to provide bundled services with analog television programming to existing analog television customers.

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

Residential Telephony

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

Our initial one-time connection charge is €45.90, which we believe is attractively priced compared to Telefónica's installation charges. We waive this connection fee for customers who subscribe to any of our bundled services. Customers who purchase our telephony service not bundled with other services pay a monthly line rental charge of €16.90 per month and in order to encourage recommendations by customers and loyalty, we offer free local calls between our customers.

We include in our basic telephony service a range of additional services including voicemail, call waiting, short-code dialing and call return at no additional cost. For an additional one-time connection charge, of up to € 5.99 and a monthly charge of €0.60, customers can also choose one of up to three packages of optional services, which include products such as barring of incoming calls from numbers selected by the customer, alarm clock service and total or selective barring of outgoing calls. We also offer telephony handsets for sale or rental.

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

Residential Internet

We currently provide both broadband and narrowband Internet services to our residential customers. Our broadband Internet service connects our customers to our local networks via cable modem at speeds of up to 1 Mbps. However, our network and our cable modems are

capable of higher speeds and we will increase the amount of bandwidth we offer customers in response to market demand. Our broadband Internet service is an "always on" service, removing the need for logging-on delays. In addition our broadband Internet service allows unlimited downloads. We price our service on a flat fee basis (with no usage fees) starting at €29.90 per month for 150 kbps. If our broadband Internet services are purchased on a bundled basis, the prices are discounted.

In addition to offering price savings as compared to other operators, the Organización de Consumidores y Usuarios, Spain's influential consumer organization, ranked our broadband services number one in terms of both downloading and surfing speeds in February 2004.

Our current Internet service offerings consist of the following:

	<u>Monthly Charge</u> ⁽¹⁾		<u>Installation</u> ⁽²⁾	<u>Transfer speeds</u>
	<u>bundled</u>	<u>unbundled</u>		
150 kbps Unlimited.....	€26.90	€29.90	Free	150 kbps
300 kbps Unlimited.....	€29.95	€38.99	Free	300 kbps
1 Mbps Unlimited.....	€35.00	€79.90	Free	1 Mbps

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

(2) Installation is currently provided free of charge when our customers purchase bundled services.

In addition, our Kit ONO WiFi and Kit ONO WiFi Lan products offer wireless broadband Internet services, at an installation charge of €176.99 or €199.99, respectively.

As of December 31, 2003, we had approximately 12,600 customers taking our narrowband dial-up service at 56 kbps, representing 6.3% of our total Internet service customers. While we continue to provide narrowband Internet access to existing customers we do not actively market this service to new customers. In addition, we are encouraging our narrowband customers to migrate to our broadband Internet services by offering free installation, and by pricing our lowest cost broadband offering at the same price as our narrowband services.

Cable Television

We provide our television customers with multi-channel pay television with basic to premium packages. In addition, we offer all of our television customers pay-per-view services, broadcasting premiere movies and live soccer content on our own Fila ONO channels. To enhance the service we provide to our customers and to reduce piracy of the signal, we encrypt our television content. A decoder is required to receive the service, which is rented to our customers for €6.49 per month. Customers can subscribe to our television services as part of a bundled package or on an individual basis.

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

When we first launched commercial services in 1998, we offered our customers analog cable television services. In 2003, we finished the deployment of our digital television platform, the installation of our state-of-the-art national digital head-end in Madrid and the development of our own electronic program guide and our digital channel line-up. In June 2003, we launched digital television services in Valencia and now offer digital television in all of our franchise areas.

Following the launch of our digital television services, we discontinued the marketing of analog services to new customers although we continue to provide analog services to our existing customers. At the end of 2003, 12.8% of our television customers were subscribing to our digital services. In 2004, once we had achieved sufficient operational experience in digital services we commenced a pro-active migration of existing

analog customers to our digital services. We anticipate that this migration process will take several years to complete.

Digital Television

We expect the introduction of digital television to increase our television customer ARPU due to both the increase and enhancement of our channel line-up and the increase of our pay-per-view buy rates. Our digital television services increase the take up of pay-per-view programming through the use of near-video-on-demand, a service which allows our customers to access pay-per-view movies that commence at fifteen minute intervals. We also believe that the enhanced services offered by digital television should help us to reduce television churn. We provide our customers with more than 150 digital television channels, including 54 channels reserved for near-video-on-demand as well as our electronic programming guide. From our state-of-the-art digital television center in Madrid, we broadcast to all of our customers using our national network. We expect to offer interactive digital television services in the future, including Internet access, TV mail and consumer applications, such as games, through the television set. We are also studying the launch of a full video-on-demand service. We believe that video-on-demand will provide us with a competitive advantage over the satellite television operator, Digital+, who does not currently have the technological capacity to offer such a service. We believe that we may be able to introduce video-on-demand in 2005, at the earliest.

Based on the success of our analog television offerings, we designed our digital television offer using a three package structure. These packages are called ORO D, PLATINUM D and DIAMANTE D.

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

	<u>ORO D</u>	<u>PLATINUM D</u>	<u>DIAMANTE D</u>
Digital offer			
Pay channels	36	78	79
Terrestrial channels.....	13	13	13
Fila ONO pay-per-view channels.....	54	54	54
ONO channels.....	3	3	3
Theme movie channels.....	0	7	7
Premium channels (Gran Vía).....	3	3	3
Total TV Channels	109	158	159
Audio channels	5	25	25
Total Channels	114	183	184
.....Monthly charge			
.....	€18.90	€33.90	€53.90
..... Gran Vía premium channels additional charge			
.....	€17.90	€17.90	—

- (1) The number of channels may vary depending on the franchise.
- (2) The "Gran Vía" premium channels are included in the DIAMANTE D package, and are optional for the PLATINUM D and ORO D packages.
- (3) Does not include an additional fee of €6.49 per month for a decoder.

Analog Television

We provide our analog services to our existing subscribers using a selection of tiered packages called MINI, ORO and PLATINO, all of which provide access to our 11 Fila ONO pay-per-view channels and can be combined with the Gran Vía premium channels.

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

	<u>MINI</u>	<u>ORO</u>	<u>PLATINO</u>
Analog offer			
Pay channels	4	28	28
Terrestrial channels.....	13	13	13
Fila ONO pay-per-view channels.....	11	11	11
ONO channels.....	3	3	3
Theme movie channels.....	0	0	4
Premium channels (Gran Vía).....	3	3	3
Total Channels ⁽¹⁾	34	58	62
..... Monthly charge ⁽²⁾⁽³⁾	€14.90	€15.90	€23.90
.....Gran Vía premium channels additional charge	€17.90	€17.90	€17.90

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- (1) The number of channels may vary depending on the franchise.
- (2) Does not include the "Gran Vía" premium channels.
- (3) Does not include an additional fee of €6.49 per month for a decoder.

Business Services

We provide our business customers with a wide range of voice and data communications services. We target small and medium sized businesses, and more selectively, large businesses and public sector organizations.

Our five years of operations in our franchise areas have provided us with a deep knowledge of our current and potential business customers' communications requirements. This knowledge has led us to develop new services and to redesign our sales and marketing processes in order to fulfill our customers' needs.

By taking advantage of our residential network we can provide direct access communications services to business customers and earn incremental, high margin revenue with a limited need for additional investment.

Small and medium sized businesses

Small and medium sized businesses demand simple and understandable products and services that provide them with effective solutions to their communications requirements at reasonable flat rate prices.

We provide our business customers with a number of options including "Oficina ONO," which bundles two voice lines with guaranteed broadband Internet services of up to 4 Mbps, and a variety of other value-added options. Our bundled services have been one of the principal factors contributing to the 52% growth in our business services customer base during 2003.

We can also address the specific needs of our customers with the different value-added services contained in our product portfolio.

Large businesses

Large business customers demand far more specific and sophisticated services than our small and medium sized businesses. We believe that our fibre-rich local access network in our franchise areas and our increasing presence as a national communications company allows us to offer businesses with competitively priced, reliable, high quality products and services covering a complete voice and data portfolio.

For customers inside our franchise areas we have developed dedicated provisioning and installation teams and we are in the process of establishing an account management system to give these customers a single direct point of contact within ONO, allowing us to seek on a proactive basis to provide customized solutions to their communications requirements.

As a result of the increase in the size of our network and the improvement of our business product portfolio, we have recently been awarded the supply contract for the provision of telecommunications and data services to the City Council of Valencia. Valencia is the largest city within our regional clusters and the third largest city in Spain. In February 2004, we were awarded a similar public contract to supply telecommunications services to the Authority of the Island of Mallorca. These recent successes, which will generate an annual revenue of around €1 million, provide evidence that our enhanced business strategy is achieving success.

We continue to focus our marketing to large businesses on those located within our franchise areas. This approach allows us to leverage our national network and provide our customers with comprehensive and individually tailored telecommunications solutions. We will, however, provide our business services to large customers outside our franchise areas on a strict return based approach. To improve our competitive position in the large business market, we are developing indirect resale voice products to serve our clients' business locations outside of our franchise areas.

Our business services portfolio

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

- Telephony (including voicemail, call forwarding, three-way calling and last call identification) for both digital and analog direct lines and switchboard connections and Integrated Services Digital Network, or ISDN, which is also used for data transmission,
- PBX-related (private branch exchange) services;
- Infrastructure services such as housing servers and leased lines;
- Virtual Private Network over IP (IP-VPN), Guaranteed Internet access, firewall management and virtual ISP;
- Business Platform services, including Hosting, Application Service Provider Exchange (ASP Exchange), Streaming, ASP on

ERP and FTP (file transfer protocol) used for centralized electronic transfer of funds (for credit cards and debit cards transactions); and

- other value-added services such as domain name registration, email accounts and web hosting.

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

Wholesale services

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

- Our carrier services provide other operators with leased circuit lines on our network. We provide guaranteed bandwidth from 64Kbits up to 2.5 Gbps.
- As a national Tier 1 Internet Service Provider with access to the Spanish Internet link (Espanix), and as one of the main Internet traffic managers in Spain, we are able to offer wholesale IP services to other operators and large consumers of bandwidth. We provide our customers with a series of services including IP transit service for level 2 (national or regional) ISPs, virtual private network over MPLS technology; virtual ISP, ADSL resale, housing and remote access.
- One of our recent voice solutions is the offering of Intelligent Network Services (including toll free and premium numbers). However, this is a high volume and low margin service and we provide these services to a very selective small number of customers, since careful risk management is required.

Sales and Marketing

The "ONO" Brand

All of our integrated services in the residential and business markets are offered under the "ONO" brand. The ONO brand is used in all advertising, sales materials, customer contracts, bills, employee uniforms, construction signs, installers' vans, and elsewhere in our business. In addition, the ONO brand and services are promoted extensively to customers through a monthly magazine (which includes television programming schedules) and three 24-hour ONO television channels.

We believe that the ONO brand, as a well-recognized brand in our areas of operation and throughout Spain, is a strong marketing tool. In 2002, the last time we conducted a survey of our overall brand awareness in key cities in which we operate, prompted and unprompted brand awareness of the ONO brand was 100% and 89%, respectively.

In December 2003, independent research indicated that our customers position the ONO brand as a triple play operator, with unprompted awareness of 97% as a telephony operator, 70% as an Internet access provider and 90% as a multi-channel pay-television provider. These results showed that the ONO brand had greater brand recognition than our main competitors, Telefónica and Digital +.

The aforementioned research indicated that, in the case of non ONO customers, in the main cities in which we operate, we are the second most recognized telecommunications brand, with unprompted awareness of 44% as a telephony operator, 24% as an Internet access provider and 37% as a multi-channel pay television provider, after Telefónica in the case of telephony, Telefónica and Wanadoo in the case of Internet access and after the analog pay television single channel Canal + in the case of television.

We conduct extensive advertising to support our brand, including billboards, regional and national press, television and radio advertising, as well as using other innovative advertising methods. In addition, we have product placement agreements with a number of Spanish regional and nationwide free-to-air channels.

We leverage our strong local presence and prominent local shareholders in order to support our local radio and television advertising with extensive sponsorship of regional and local cultural events, sports teams, trade shows and festivals.

Quality and Customer Service

Customer satisfaction is essential to the maintenance of our current subscriber base, our pricing levels and to our future prospects. We consider that customer satisfaction is significantly conditioned by the quality of our networks. For this reason we have designed redundant high speed, high capacity fiber-optic broadband networks from the start of our network buildout. We also ensure that our main suppliers and contractors

are capable of providing us with top quality products and satisfactory service level agreements. With these quality control policies, our network quality ratios for the fourth quarter of 2003, which improved the targets reported to the Spanish regulatory authorities, were as follows:

Access network service failures	2.1%
Time to manage 95% of service failures	39 hours
Failed calls—national	0%
Failed calls—international	3%
Failed calls—mobile	0%

However, the quality of our networks and services is not the only requirement to maintain the loyalty of our customers.

We believe customer service and attentiveness to the needs of our customers are critical to the growth of our residential and business services. Since the launch of our operations we have continuously invested in improving and enhancing our customer service in all our customer oriented processes.

- Installations and provisioning:** the installation process is the first contact we have with our customers once they have contracted our services. Due to our geographical reach, we work with different installation contractors in our franchises, though all of them are trained in our specific installation process and monitored from our internal installations team and our specialized call center help desk. Aiming to maximize our customer satisfaction, we have recently developed specific tools to allow for the automated provisioning of services immediately following the installation. In addition, we are re-engineering our process to centralize all of our installation and provisioning functions and customer contact in a separate specialized call center. As a result we have achieved the following provisioning ratios in the last quarter of 2003:

Average provisioning time.....	5 days
Provisioning completed within 10 days.....	94%
Repair execution within 48 hours	97.7%

- Billing process:** we view our billing process as a key service to our customers, and we continually seek to improve the disclosure, flexibility and look of our bills. We have improved services such as the detail of telephone calls and pay-per-view consumption by providing on-line billing information. We also aim to implement e-billing to the extent that this service is more customer friendly and cost efficient. During 2004, we aim to continue to improve our billing process through the implementation of a new billing system (to be operational in 2005) that will provide us with further flexibility and increased functionality to enhance our customer service.
- Customer call centers:** we operate two customer call centers in Valencia, with a total of 450 seats, providing service 24 hours a day, 365 days a year. We have added an integrated automated call-handling system to our process in order to re-direct our customer calls to separate specialized help desks, thus increasing the number of calls handled and reducing our answering times. In the last quarter of 2003, over 85% of all calls were handled within 30 seconds.

Within the call centers we operate separate help-desks to address the needs of business and Internet customers. Each customer service agent attends a six to eight week training program, providing the individual with specific sales and customer service skills. We also focus on in-house training of installation technicians to ensure compliance with strict quality standards and to ensure that installations are scheduled to suit customers' requirements. Our call center uses a comprehensive ticketing system that specifically addresses the needs of our residential and business customers.

- Customer loyalty and retention:** customer loyalty and retention has become one of our high-priority objectives. Though we are currently analysing future developments to improve our loyalty programs, to date we have created a loyalty programme called Club ONO for our television customers. Club ONO members can receive direct gifts, participate in draws for tickets to exclusive events and film premieres. We also have a team dedicated to customer retention in our call centers who help resolve customer problems or complaints.

Our Areas of Operation

Our business and franchise areas cover approximately 5.6 million homes and 0.7 million businesses. We manage our franchises in four different regional clusters: the Mediterranean cluster, the Southeast cluster, the Andalucía cluster and the North cluster. The following table sets out certain information concerning our regional clusters:

Note: this map is representative of our geographic areas of operations and should not be interpreted as being an accurate representation of exact boundaries.

Clusters	Total Homes⁽¹⁾	Homes Passed	Total Businesses⁽²⁾
Mediterranean Cluster.....	2,040,690 ⁽³⁾	948,001	263,598 ⁽³⁾
Southeast Cluster	2,527,563	600,235	295,072
Andalucía Cluster	717,097	310,001	77,009
North Cluster	281,792	144,996	34,017
Total—Franchises	5,567,142	2,003,233	669,696

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

(2) Total businesses in each cluster have been obtained from the 2003 businesses central directory published by the National Statistics Institute of Spain (Instituto Nacional de Estadística—INE).

(3) Data for the Mediterranean Cluster include all the homes and businesses in the Balearic Islands, not only those for the Island of Mallorca.

- *The Mediterranean Cluster.* The Mediterranean cluster covers approximately 22,430 square kilometers, with 2.0 million homes and 264,000 businesses and a total population of 3.5 million. The Mediterranean cluster covers the provinces of Castellón and Valencia and the Island of Mallorca. The principal cities in the cluster are Valencia, Spain's third largest city with 377,000 homes, Castellón de la Plana and Palma de Mallorca, each of them capital cities of their respective province.
- *The Southeast Cluster.* The Southeast cluster covers approximately 96,600 square kilometers, with 2.5 million homes and 295,000 businesses and a total population of 4.4 million. The Southeast cluster serves the province of Alicante, the region of Murcia and each of the five provinces in the region of Castilla-La Mancha. The principal cities are Alicante, Murcia, Ciudad Real, Cuenca, Guadalajara, Toledo and Albacete, all of them provincial capitals, and the cities of Elche, Talavera de la Reina and the port city of Cartagena. The franchise of Castilla-La Mancha was won in mid 2003 and therefore our network development in the five provinces within the region of Castilla-La Mancha (other than the city of Albacete) commenced in late 2003 and 2004. We expect to commence our commercial activity in these provinces in the first half of 2004.
- *Andalucía Cluster.* The Andalucía cluster covers 17,600 square kilometers, with a total of approximately 717,000 homes and approximately 77,000 businesses and a total population of approximately 1.6 million. The ONO franchises in the Andalucía region of Spain include the Cádiz and Huelva provinces, which border the Atlantic Ocean and include the cities of Cádiz, Huelva and Jerez.
- *The North Cluster.* Our franchise area in northern Spain covers the region of Cantabria (including the city of Santander) and covers approximately 5,300 square kilometers and approximately 282,000 homes and 34,000 businesses.

GCO has recently acquired 61.0% of Retecal, the cable telecommunications franchisee for the region of Castilla y León. Castilla y León is located to the north-west of Madrid and in an area currently covered by our backbone network. While Retecal is not currently a part of the ONO Group, we intend to enter into shared service agreements with Retecal in order to capture economies of scale and aggregate buying power. Subject to the limitations imposed by the Indentures, we expect that over time we will integrate Retecal and its network into our business and operations. See "Offering Memorandum Summary—Recent Developments—Acquisition of Retecal by GCO."

Network Architecture

Local Networks

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

Our fiber-optic ring architecture is used to transport signals from local operations centers to primary nodes, or hub points, serving 20,000 to 60,000 homes in urban areas. The local operations centers generally house both a cable television head-end and a telephony and data switch. The head-end assembles the cable television signals for transmission to the customers. The primary nodes are in turn connected to secondary nodes along a secondary fiber-optic ring network. These secondary nodes are optical distribution points each serving around 2,000 homes, which distribute fiber to the home terminal nodes. The home terminal nodes serve 500 homes.

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

Our 15 telephone switches are the core of our telephony business. Each switch is capable of handling up to 100,000 customers. The telephony network has been designed so that, as penetration and traffic increases, an incremental upgrade of the equipment will enable additional capacity to be easily provided at minimal cost. All the network's telephony equipment is powered by battery backed-up power supplies, in order to meet the current legal requirement to provide at least 12 hours of service in the event of a power failure.

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

The broadband Internet and cable television networks use a hybrid fiber-coaxial transmission system. The system is broadband and operates over a wide frequency. The forward path uses the range from 86 megahertz to 862 megahertz, and is capable of carrying voice, data, video and television channels. The segment up to 630 megahertz is currently used for broadband internet and analog cable television services and a further 256 megahertz of capacity is used or reserved for digital television, video-on-demand ("VOD") and future digital services. Once we have migrated all of our television customers to our digital television services, we will reuse the analog segment for other services. This network is also designed to support reverse path operations on bandwidths up to 65 megahertz allowing interactivity between individual homes and the head-ends.

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

Backbone Network

Iberdrola, a large Spanish electrical utility provider, leases us high capacity fiber-optic cable linking our Spanish franchises in eastern and northern Spain with each other and with the city of Madrid. RENFE (the Spanish national railway company) provides us with similar fiber linking Andalucía with Madrid. We completed the lighting of our national backbone network in 2001 and we have since then added almost full redundancy to ensure that we can maintain a high quality of service and network availability for our customers. By the end of 2003, we were operating 6,362 route kilometers of high capacity, fiber-optic cable national network.

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

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

General Network Topology

Construction and Equipment Suppliers

We rely on Ferrovial, one of Spain's leading construction corporations and one of the ONO Group's beneficial shareholders, and a number of other, smaller contractors, for the construction, commissioning and delivery of our networks. In the event that it becomes necessary, we are confident that we could continue our current rate of construction even if one of these construction companies should cease operations.

We rely mainly on Alcatel for the supply of electronic equipment including switches, synchronous digital hierarchy access equipment, coaxial and fiber cables, cable television transmission equipment and optical receivers. Alcatel is also responsible for commissioning our telecommunications equipment. The cable television amplifiers are from C-Cor (formerly Philips). Our digital head-end was supplied by Motorola, Harmonic and Cisco. Our set-top boxes (both analog and digital) are currently supplied by Motorola.

Our Internet service provider software is provided by, among others, Sun Microsystems, Hewlett Packard, EMC2 and Cisco and our cable modem equipment is supplied by Motorola, US Robotics and Cisco, among others.

The construction contractors are responsible for all civil works, equipment installation and activation of our local networks. CH2MHill oversees the construction contractors and is responsible for detailed street by street network design, as well as the overall management of the construction program. When a construction company completes a specified portion of the network, CH2MHill conducts a final inspection to ensure that this portion is built correctly and in accordance with our engineering specifications and either accepts or rejects the constructed portion on our behalf.

We believe our main suppliers to be financially sound and unlikely to cease operations in the immediate future. We have, nevertheless, identified secondary suppliers for key network elements.

Our Competition

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

We believe, however, that our ability to offer bundled services to our customers currently provides us with a competitive advantage over our main competitors. In our areas of operations, we are the only service provider that can provide the full range of services that we offer, including:

	<u>ONO</u>	<u>Telefónica</u>	<u>Digital+</u>	<u>Broadband Resellers</u>	<u>Telephone Resellers</u>	<u>Free to air TV</u>
Telephony	#	#	—	—	#	—
Broadband Internet.....	#	#	—	#	#	—
Television	#	#	#	—	—	#
		*				
Bundled Services	#	—	—	—	—	—
Business Services.....	#	#	—	#	#	—

* To date Telefónica's "Imagenio" service is only offered on a limited basis in parts of Madrid, Barcelona and Alicante.

Residential Telephony

We compete primarily with Telefónica in providing direct access telephony services to residential customers in our Spanish franchise areas. We also compete with existing and future entrants in the Spanish telecommunications market, including indirect access providers such as

Auna, Uni2, Tele2, Jazztel, and the three mobile telephony operators, Telefónica Móviles, Vodafone and Amena. Telefónica is the only operator currently offering direct access telecommunications services to residential customers in our franchises.

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

- **Telefónica.** Telefónica, the incumbent telecommunications operator in Spain and one of the largest Spanish corporations, has an established market presence and resources substantially greater than ours. Telefónica has a fully built national telephony network and has extensive experience in marketing and operating telecommunications services in Spain. Telefónica is required to provide universal telephony services across Spain and must impose uniform tariff rates. Most of the residential telephony customers in Spain are currently Telefónica's customers. Our growth in residential telephony services depends on our ability to attract Telefónica's customers to our services;
- **Auna.** Auna began offering an indirect access fixed-line telephony service to residential customers in our franchise areas in January 1998 branded as Retevisión. In addition, the assets of Auna include the third Spanish mobile operator, Amena, and cable assets in different franchise areas than ours; and
- **Other indirect access telephony providers.** Indirect access telephony providers such as Uni2, Tele2 and Jazztel connect customers primarily through Telefónica's networks. Indirect access telephony providers market number portability, carrier pre-selection and other such services to their customers and potential customers. These services are provided through Telefónica's network, thus making quality management difficult by requiring the customer to keep its Telefónica connection as a result of their dependency on Telefónica. We believe that indirect telephony access services offer the customer a weaker solution than our direct access network services and that this provides us with a competitive advantage over these competitors.

Spain has yet to see a significant increase in Internet based telephony traffic in the residential market. We do however anticipate that this will represent a competitive threat in the future.

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

We believe that one of our competitive advantages in telephony is that we can offer high quality services at competitive prices, including free calls between our customers over our state-of-the-art local network.

Broadband Internet

Telefónica is the leading provider of Internet access in Spain through its DSL service and is our principal competitor for broadband Internet services. Telefónica has marketed its broadband Internet services under the Terra and Telefónica brands and has continued to seek to migrate customers from its narrowband to broadband Internet service. Other DSL Internet service providers such as Wanadoo, Tiscali and Ya.com offer high-speed Internet services over Telefónica's network, thus diffculting their control on the quality of their services. These providers' current comparable offerings are generally more expensive than ours.

Television

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

Our most significant competitor in the Spanish pay television market is Sogecable, which offers Digital +, the direct-to-home satellite multi-channel television service and Canal +, its terrestrial service.

- **Canal +:** Canal +, which launched in 1990, is a general entertainment broadcast channel, offering first run movies and Spanish first division soccer programming. Canal + broadcasts using analog terrestrial technology. A three-channel digital version of Canal + is also available to the direct-to-home satellite subscribers of Digital +.
- **Digital +:** Digital + is the platform resulting from the merger of the two former satellite TV providers in Spain, CanalSatélite Digital and Vía Digital in 2003. Digital + currently offers a wide range of channels in a variety of differently priced packages, including multiplexed Canal +, the Disney Channel and Cinemania as well as access to unencrypted international channels.

Since direct-to-home services are satellite based, Digital + does not need a terrestrial network to provide services to its customers.

However, direct-to-home customers must lease a satellite dish and a decoder. Furthermore, direct-to-home providers such as Digital + can only offer limited interactivity using a telephone return path and currently do not have the technical capability to offer the bundled service packages that we offer.

On November 29, 2002, the Spanish Government approved the merger between Sogecable and Vía Digital subject to thirty-four conditions applicable for a period of five years. Together, CanalSatélite Digital, Sogecable's satellite TV platform, and Vía Digital, Telefónica's satellite TV operator, exert significant market power in the Spanish pay television market. In early 2003, the major shareholders of Sogecable and Vía Digital approved the merger, but appealed five out of the thirty-four conditions, which are still pending resolution.

The following is a summary of the principal conditions imposed by the Spanish Government that may materially affect our business:

- *Television line-up.* Sogecable has the obligation to carry certain channels from non related parties which must represent at least 20% of the existing television line-up before the merger;
- *Limitations in agreements with the "Majors" and pay-per-view services.* The compliance with the conditions relating to this restrictions established that, amongst others, Sogecable must (i) give up the existing preference rights of renewal in its agreements with the "Majors," (ii) limit to three years its exclusivity clauses on new television content agreements and (iii) hold non exclusive rights on pay-per-view content (Spanish soccer league and King's Cup and Major's first pass movies) with the possibility of either offering this content to us and other competitors or permitting others the capability of negotiating directly with content providers;
- *Commercialization to third parties of a premium broadcast channel* which includes a first pass window of movies from the Majors and theme channels;
- *Sogecable's relationship with Telefónica.* Sogecable cannot bundle Digital + with Telefónica's Imagenio and/or sell content to Telefónica on a preferred basis as compared to the conditions offered to third parties; and
- *The establishment of a price cap to the Digital + content.* The price cap will be set on a yearly basis.

On December 1, 2002, we appealed the agreements between Sogecable and the Majors for the first and second pass window of premiere movies on an exclusive basis. As a result, on October 27, 2003, the Spanish anti-trust office ("*Servicio de Defensa de la Competencia*") decided to initiate a sanction file ("*expediente sancionador*") against both Sogecable and the Majors. This sanction file would be outstanding for a period of one year which could lead to the commencement of a legal proceeding before the Spanish Anti-trust Court ("*Tribunal de Defensa de la Competencia*"). A positive result of this process would allow us to directly negotiate with the Majors and access to first and second pass window premiere movie content.

On February 3, 2003, we appealed the Spanish Government's approval of the merger before the Supreme Court. Other affected parties have also appealed the approval. As of the date of this offering memorandum, there have been no material developments regarding this matter.

In 2003 Telefónica launched its "Imagenio" services, offering television services via DSL. Although still in the first stages of its development, the Imagenio service may allow Telefónica to offer bundled services to its customers. Currently, this offer has certain technical limitations including the fact that it can only be provided if the local sub-station is digital, which prevents it from reaching a wider audience for the time being. To date, Telefónica's Imagenio service is only offered in parts of Madrid, Barcelona and Alicante. In addition, digital terrestrial television operators are expected to play a role in the marketplace.

Business Services

Telefónica and its affiliates are our principal competitors in providing business telecommunications services, followed by Auna, BT-Ignite, COLT Telecom España, Uni2, Jazztel and Comunitel, among others, all of whom offer telecommunications services to business customers.

Employees

During the year ended December 31, 2003, we had an average of 1,753 fixed and temporary full time employees, an increase of 88 as compared to the 2002 average. Most of our employees are covered by the cable industry collective bargaining agreement.

In September 2002, we reached an agreement with our employees and the Spanish authorities for a regulated reduction of the workforce of up to 400 employees by the end of 2003, affecting all of our areas and professional categories. Under this agreement, 322 employees had been made redundant by the end of 2003.

In 2001, 2002 and 2003, our average number of employees was as follows:

	Year ended December 31,		
	2001	2002	2003
Executives	65	59	49
Non-executives	1,731	1,606	1,704
Total	1,796	1,665	1,753

Properties

We lease certain properties for administrative and sales offices, hubs, stores, switch and head-end sites and warehouses. A significant proportion of the properties are used for both administrative and technical purposes. Our network operations center and digital head-ends are located in Madrid and our call center is located in Valencia. We believe that our properties are generally suitable and adequate for the purposes for which they are intended.

Legal Proceedings

Certain legal actions were initiated in 1998 against the Spanish telecommunications regulatory authority, challenging the award of the Huelva and Andalucía franchises and the enlargement of the Mallorca franchise (initially granted for the City of Palma de Mallorca and enlarged by the Ministry to cover the entire Island of Mallorca). These proceedings may adversely affect our licenses. Generally, the plaintiffs in these actions allege non-compliance by the Spanish telecommunications regulatory authority with such procedures. The Spanish telecommunications regulatory authority is contesting these actions and we intend to file supporting memoranda vigorously contesting these actions. We believe that there is no factual basis to support the plaintiffs' claims, and that the actions will therefore prove unsuccessful. The loss of any of these franchises would have a material adverse effect on us and would constitute an event of default under the terms of the Notes and the Existing Notes and under our Senior Bank Facility. Similar actions have been filed by unsuccessful bidders in connection with the award of many of the cable/telephony franchises awarded in 1997 and 1998. To date no action has been successful in overturning the award of a franchise.

We are also engaged in other routine litigation arising in the ordinary course of our business including litigation with some of the minority shareholders in some of our subsidiaries and litigation relating to the size of the annual fee payable for the use of the public domain. We do not believe that the adverse determination of any such pending routine litigation, either individually or in the aggregate, could have a material adverse effect on our business or financial condition.

REGULATION

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

Regulation of Electronic Communications Services

European Union Overview

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

- universal service and users' rights relating to electronic communications networks and services (the "Universal Service Directive");
- access to, and interconnection of, electronic communications networks and associated facilities (the "Access Directive");

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

National Regulatory Authorities in Spain

The provision of telecommunications services in Spain is mainly regulated and overseen by the Spanish Government through the Secretary of State for Telecommunications and Information Society, a unit of the Ministry of Industry, Tourism and Commerce (Ministerio de Industria, Turismo y Comercio ("MITC")).

An additional independent oversight body, the Telecommunications Market Commission (Comisión del Mercado de las Telecomunicaciones) ("CMT"), was created in 1996. The CMT supervises the activities of electronic communications and television operators. Amongst others, it is responsible for promoting competition in the telecommunications and audiovisual markets and holds certain powers with regard to safeguarding the plurality of service offerings, access to networks and networks interconnection. The CMT also has sanction and other powers in connection with certain matters, solves conflicts between operators and, as the case may be, arbitrates operators disputes, on request of the negotiating parties.

Additionally, the Spanish Government, the Ministry of Economy and Finance and the Radiocommunications National Agency are also national regulatory authorities in the telecommunications sector.

The General Law on Telecommunications of 2003

Law 32/2003, General on Telecommunications ("General Law on Telecommunications") became effective November 5, 2003 establishing a new regulatory framework for electronic communications services in accordance with applicable EU directives (and repealing and replacing, except for certain provisions, the General Law on Telecommunications of 1998, which liberalized the provision of telecommunications services in Spain). The General Law on Telecommunications aims, amongst others, at enhancing effective competition in the telecommunications sector, safeguarding compliance by operators with public service obligations (specially those related to universal service), promoting the development of the telecommunications sector, ensuring an efficient use of the scarce resources, such as numbering and spectrum, defending users' rights and contributing to the development of the internal market of electronic communications within the EU. The General Law on Telecommunications provides for free competition with respect to all electronic communications services and with respect to the construction and operation of electronic communications networks. Electronic communications services are deemed of general interest. Operators may be imposed certain public service obligations.

The General Law on Telecommunications grants universal rights of access to basic services, contains provisions relating to the privacy of communications, the protection of personal data and the configuration of networks and services, and provides rules and procedures for the certification of devices used for providing telecommunication services.

In accordance with the General Law on Telecommunications, its provisions shall be implemented through several regulations, none of which have yet been enacted. Until approval of such new regulations, regulations currently in force relating, amongst others, to interconnection and access to networks, the allocation of numbers, operator selection, number portability, universal and compulsory services, and public service obligations, will remain applicable in the terms established by the General Law on Telecommunications.

In addition, the CMT will define the relevant markets (following EU Guidelines) and analyze them in order to determine the operators holding significant market power. Pursuant to a regulation yet to be approved, the CMT will impose the most appropriate specific obligations to those operators with significant market power in order to guarantee the development of such relevant markets within an effective competition environment. The current markets, operators with significant market power and obligations imposed on them shall remain applicable, in the terms established by the General Law on Telecommunications, until the new markets are defined, the operators with significant market power appointed and their obligations determined.

Pursuant to Royal Decree-Law 6/2000 on certain cross-ownership and cross-voting rights restrictions in companies considered as principal operators, amongst others, in the fixed-line telephony market, the ONO Group was declared by the CMT as principal operator in said market, together with the Telefonica Group, Auna Group, France Telecom Group and Jazz Telecom, S.A. being their direct and indirect shareholders subject to certain shareholding and voting rights restrictions. This notwithstanding, and pursuant to the terms of Royal Decree-Law 6/2000 and its implementing regulations, the CMT authorized one of the indirect shareholders of the ONO Group to keep its voting rights in two

entities considered as principal operators in the fixed-line telephony market.

Authorizations

Under the General Law on Telecommunications, operators, as the sole formal requisite for the provisions of services and the construction and operation of networks, only need to file a prior notification with the CMT.

Such notification must state the submission to the rules applicable to the rendering of the relevant service or the exploitation of the relevant network (such rules to be approved by a new regulation). The CMT shall have 15 days to oppose to such notification, should formal requirements not be duly complied. If requirements are met, the CMT will order the record of the relevant operator at the Registry of Operators.

In general terms, individual licenses and general authorizations granted under the former General Law on Telecommunications of 1998 have been extinguished, their holders being automatically authorized to render the same services under the new Law. Until the regulation implementing the General Law on Telecommunications on the conditions to be imposed on electronic communications operators is approved, the conditions applicable according to former individual licenses and general authorizations and to former regulations implementing the General Law on Telecommunications of 1998 shall remain applicable as long as they do not contradict the Authorizations Directive.

The conditions to be imposed pursuant to the referred regulation may be amended by the Government.

The ONO Group is duly registered at the CMT as an operator entitled to provide electronic communications services and to install and exploit electronic communications networks.

Interconnection

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

Interconnection agreements are subject to the supervision of the CMT and to Spanish regulations. Until a new regulation is approved, the Decree on Interconnection, Access to Public Networks and Numbering ("Interconnection Decree") shall remain applicable. The Interconnection Decree requires Telefónica to submit a "reference interconnection offer" (RIO) to the CMT containing, amongst others, its proposed price terms, which shall be cost-oriented. The last interconnection reference offer is the RIO 2003.

The Interconnection Decree requires that unless the parties agree otherwise, interconnection agreements must be reached within four months from the date of any request to start negotiations. In the event the parties cannot agree on such terms, the CMT will decide the terms applicable to the related interconnection agreement.

Access to the Local Loop

Until a new regulation implementing the new General Law on Telecommunications is enacted, access to the local loop is governed by the Access to the Local Loop Royal Decree of December 22, 2000. The Royal Decree provides for conditions in which operators of fixed telephony service available to the public and fixed public telephony networks with significant market power, currently Telefónica, will provide access to the local loop and related resources to the corresponding authorized operators. These operators must publish a local loop offer, including, amongst others, the relevant technical and economic conditions. According to this Royal Decree, tariffs for the provision by Telefónica of access to the local loop must be cost-oriented.

The last local loop offer published by Telefónica was approved by the CMT on March 31, 2004.

Numbering and Operator Selection

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

The General Law on Telecommunications and the Interconnection Decree address operator selection, which refers to the ability of the subscriber or user to select a given operator for all or certain calls. The operator to be used can be chosen ahead of time or on a call-by-call basis. The operator selected must transport the calls effectively and efficiently. Operators with significant market power in the provision of connection to and use of the public telephony network at fixed locations—currently Telefónica—are obliged to provide operator selection. The Government is allowed to impose operator selection obligations on other type of networks.

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

Number Portability

Under the General Law on Telecommunications, users or subscribers shall have the right to keep their existing telephone numbers when contracting for the same telecommunications services from a new provider, in the cases to be established by the relevant implementing regulation. The General Law on Telecommunications further requires that operators shall share some of the costs associated with this service. Until a new regulation is enacted, the Interconnection Decree provides for the exercise of these rights.

Occupancy Rights

Electronic communications operators have the right to occupy the public domain, benefit from expropriation procedures and be granted rights of way or easements over the property of third parties, subject to certain conditions and insofar as required to deploy networks. The General Law on Telecommunications also provides for the obligation of the authorities to promote operators to enter into agreements for infrastructure sharing and for co-location in public and private property and, under certain conditions, the CMT may impose infrastructure sharing on the operators.

Payments

Telecommunications operators are required to make certain payments. Most importantly, they are required to pay to the CMT a maximum annual fee of 0.20% (currently 0.15%) of their gross telecommunications revenue minus certain interconnection, connectivity and other costs related to those revenues, and a separate annual municipal fee of, initially, 1.5% of gross revenue obtained in each Municipality for use of the local public domain, and certain other local fees and taxes.

Telephony Customer Charges

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

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

During this interim period, prices charged by Telefónica for the provision of fixed-line telephony services and leased lines are based on a model of maximum limits of annual prices, established using as a reference the annual changes in the consumer price index, approved by the Government Commission of Economic Affairs. According to the framework currently in force, this price cap regime shall be applicable until December 31, 2004.

Universal Service, and other Public Service Obligations

Universal service covers a range of telecommunications services which must be provided to all users at a reasonable price, regardless of their geographical location. These include access to the fixed telephony network, including functional access to the Internet, availability of directory information, sufficient provision of public pay phones, and access to fixed telephony for the handicapped. The new General Law on

Telecommunications provides that the MITC shall designate the operator(s) entrusted to ensure the universal service. The operator(s) may be different in each region and different services included within the scope of universal service may be provided by different operators. Should different operators be interested in rendering these services, the regulation that shall implement the General Law on Telecommunications in this regard shall provide for a public bidding procedure to designate the operator(s) in charge.

During the period until the new regulation on public service obligations is approved, Telefónica shall be considered as the sole operator to provide universal service across the whole territory of Spain. Other operators, besides Telefónica, may also be required to provide universal service in the future.

The CMT may determine that providing universal service imposes a competitive disadvantage on the operators that provide these services, and that the net cost of these services should be allocated among certain operators in accordance with criteria to be determined by the CMT. The mechanism to compensate for these costs shall be the National Universal Service Fund. Contributions to the National Universal Service Fund shall be made by the operators in accordance with a regulation that will implement the General Law on Telecommunications. The current Decree on Universal Service indicates that a National Fund for Universal Service will be created and that the costs will eventually be allocated among certain operators on the basis of gross revenue. Nevertheless the CMT has agreed that no compensation shall be applied to the costs of providing universal service for years 2001 and 2002. The CMT has not considered the costs of providing universal service for 2003 yet.

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

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

Regulation of Cable Television Services

Overview

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

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

Besides certain minor cable television operators existing prior to the calling of the tenders under the Cable Telecommunications Law that may operate in the franchise areas, until December 31, 2009, only two operators can provide cable television services in each franchise area (Telefónica and a second operator, such as us). This limitation may be removed by the Government as of December 31, 2005 if after consultation with the CMT, the Government deems it appropriate in light of the overall rollout of cable networks in Spain. This limitation does not affect those franchise areas where no original concession was awarded pursuant to the Cable Telecommunications Law. In those areas, administrative authorizations to provide cable television and pay-per-view services may be granted after the approval of the relevant regulation that will govern the provision of cable television services, as established by the General Law on Telecommunications.

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

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

Obligations

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

- to distribute programming provided by independent third party programmers. The relationship between the cable operator and the independent programmers shall be freely negotiated by the parties, in accordance with the provisions approved by the relevant Administrations,
- to comply with rules established in the Law of Television Without Frontiers, regarding, amongst others, programming, television advertising, teleshopping and sponsorships and programming legislation aimed at protecting children,
- to comply with the EU provisions and national legislation on intellectual property,
- and to comply with obligations on conditional access, on access to certain television and radio services, on broadband television and rebroadcast that may be imposed on the holder of an administrative authorization pursuant to the interim regime established in the General Law on Telecommunications. This notwithstanding, until the relevant regulation on these issues is approved:
 - (i) holders of administrative authorizations to provide cable television and pay-per-view services are subject to comply with the Conditional Access Law of 1997, which imposes, amongst others, the obligation that decoders for conditional access must be compatible and that the standard agreement between distributors and operators with customers for the use of decoders and the provision of digital television services through conditional access must be approved by the CMT; and
 - (ii) the provisions of the Cable Telecommunications Law on the obligations to distribute all terrestrial national broadcast channels, regional channels and those local channels if requested by the subscribers, are still applicable to cable television operators.

It should be noted that it is not clear whether, in addition to the above described obligations mentioned in the relevant cable television concession conversion document, there are other former obligations imposed on cable operators under the former concessions that remain applicable. For instance, according to the current interpretation of the MITC any act or contract which results in the transfer, sale, lease, encumbrance or similar transaction of all or any of the shares of the administrative authorization holder must be authorized in advance by the MITC.

Concession Payments

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

MANAGEMENT

Directors and Senior Management

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

All decisions regarding our business are made by the Board of Directors of GCO, our ultimate corporate parent.

Description of GCO's Shareholders' Agreement

GCO's shareholders entered into a shareholders' agreement, dated February 9, 2004, which addresses matters relating to our corporate governance, including the election of the GCO Board of Directors, managing director and other senior managers of the ONO Group, major corporate decisions, and change of control issues.

The shareholders' agreement provides that GCO's Board of Directors will consist of thirteen directors, with five directors appointed by Spaincom (or by Spaincom's shareholders), including the managing director, two directors appointed by Banco Santander Central Hispano, one director appointed by Multitel, one director appointed by Ferrovial, one director appointed by VAL Telecomunicaciones, one director appointed by Sodinteleco and two independent directors to be nominated by the shareholders.

Certain corporate decisions require the favorable vote of the holders of at least 66²/₃% of GCO's voting shares, or the prior consent of at least eleven of its directors. While the GCO Board of Directors may delegate many of its powers to the managing director, certain actions will require the prior approval of the Board of Directors and, in some cases, the approval of GCO's or Cableuropa's President, as applicable.

Change of control

Each of GCO's current shareholders has agreed to launch an offer to the remaining shareholders for the acquisition of the total share capital of GCO if, either directly or indirectly, any such shareholder acquires or control 50% or more of GCO's shares or voting rights.

The parties to the shareholders' agreement expressly agree that the shareholders' agreement takes precedence, between the parties, over the bylaws. The shareholders' agreement expires at the earlier of June 30, 2004 and a change of control as a result of a public offer for the acquisition of GCO's total share capital.

Administration Agreement

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

Directors of GCO

The Directors of GCO are as follows:

Name	Age	Title	Member of Board of Directors since	Termination
Directors:				
Eugenio Galdón ⁽¹⁾	53	Director and President	2002	2006
Richard Alden ⁽²⁾	40	Managing Director	2002	2006
Peter Foley ⁽²⁾	43	Director and Vice President	2003	2006

Jack McCarthy ⁽²⁾	36	Director	2002	2005
David Brochet ⁽²⁾	37	Director	2002	2005
Bhupesh Gupta ⁽²⁾	45	Director	2004	2007
Matías Rodríguez Inciarte ⁽³⁾	56	Director	2002	2005
Juan Carlos Muñoz ⁽³⁾	37	Director	2002	2006
Nicolás Villén ⁽⁴⁾	54	Director	2003	2006
Tomás Fuertes ⁽⁵⁾	64	Director	2004	2007
José Luis Ulibarri ⁽⁶⁾	49	Director	2004	2007
Leopoldo Calvo-Sotelo ⁽⁷⁾	78	Director	2002	2005
Raimo Lindgren ⁽⁷⁾	68	Director	2002	2005

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- (1) Appointed as proposed by Grupo Multitel.
- (2) Appointed as proposed by Spaincom.
- (3) Appointed as proposed by Banco Santander Central Hispano (SCH).
- (4) Appointed as proposed by Ferrovial.
- (5) Appointed as proposed by VAL Telecomunicaciones.
- (6) Representing Sodinteleco.
- (7) Independent director.

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

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

Peter Foley was appointed a Director of GCO in 2003 by Spaincom. Mr. Foley is Managing Director and Head of Organisation for GE Commercial Finance's Global Media & Communications Team, and has 15 years experience in the media and telecommunications industries. Prior to joining General Electric in 1997, Mr. Foley worked for Toronto Dominion Bank (TD). During his career at TD, he held senior positions in the Communications Finance and Risk Groups in the US and Europe.

Jack McCarthy, as appointed by Spaincom, was a permanent observer to the Board of Cableuropa from 1997 through to May 2000, at which time he joined the Board as a Director. He was appointed a Director of GCO in February 2002. Since joining BA Capital Partners in 1995, Mr. McCarthy has led investments across the European continent in the industrial growth, financial services, telecommunications and business services sectors. Mr. McCarthy joined the group as a founding partner in 1995, having previously been with the investment banking affiliates of Bank of America Corporation and Continental Bank where from 1990 he focused on financial advisory, M&A, and capital raising mandates.

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

Bhupesh Gupta was appointed a Director of GCO in March 2004 by Spaincom. Mr. Gupta is Managing Director, Global

Communications & Media for GE Corporate Financial Services. He has over 20 years of experience in finance of which the last seven have been in the media and telecommunications industry in Europe and Asia. Prior to joining GE in 1994, Mr. Gupta worked for an affiliate of Bank of America Corporation as Vice President, Corporate Finance. He is a Chartered Accountant, has a Bachelor of Law degree and practiced as an accountant and consultant prior to joining Bank of America Corporation.

Matías Rodríguez Inciarte, as appointed by SCH, was also a Director of Cableuropa from December 1997 through February 2002. After serving in the Spanish cabinet as Minister of Presidence (Ministro de la Presidencia), Mr. Rodríguez Inciarte joined Banco Santander in 1983 where he became Second Vice Chairman. After the merger with BCH, Mr. Rodríguez Inciarte was appointed Vice Chairman of SCH and Executive Chairman of its Delegate Credit Committee. In addition, Mr. Rodríguez Inciarte is chairman of Santander-Met, an insurance holding group, and a member of Banesto's board of directors.

Juan Carlos Muñoz, as appointed by SCH, has been Director of GCO since January 2002. He is currently in charge of telecommunications investments in SCH's industrial group. Before joining SCH, he headed the Infrastructure area and worked as Account Manager of Corporate Banking for international telecommunications groups. He also spent four years working in the Corporate Finance department of Central Hispanoamericano Investment Banking.

Nicolás Villén, as appointed by Grupo Ferrovial, has been Director of GCO since 2003. He is currently Chief Economical-Financial Officer of Grupo Ferrovial. He was previously Chief Executive and Operating Officer of Midland Montagu Ventures, Chief Executive Officer and International Vicepresident of Smith Kline & French, Chief Financial Officer and Sales Manager of Abbot Laboratories and he assumed the responsibility for financial affairs in Corning Glass Works.

Tomás Fuertes was appointed a Director of GCO in March 2004 by VAL Telecomunicaciones. Mr. Fuertes is the owner of El Pozo holding company and is the president of the Fuertes Group and is also a member of the Executive Committee of the Region of Murcia Confederation of Entrepreneurs. Mr. Fuertes has a degree in Executive Business Management from the University of Murcia, and has also been awarded a diploma in Business Management by the Ministry of Economy.

José Luis Ulibarri, representing Sodinteleco since March 2004, is the president of the Begar Group, formerly one of the main shareholders of Retecal. He has also been the president of Retecal since its incorporation in 1997. Mr. Ulibarri has over 20 years experience in the media and telecommunications industries. He is the president of Castilla y León Radio, which has six broadcast stations in the Castilla y León region and of Televisión de Castilla y León, which holds 18 local broadcast channels.

Leopoldo Calvo-Sotelo became an independent Director of Cableuropa in November 2000. Mr. Calvo-Sotelo is also an independent Director of GCO. Mr. Calvo-Sotelo was President of the Spanish Government from 1981 to 1982 and a member of the European Parliament from 1983 to 1987. He held senior positions in Unión Española de Explosivos, RENFE, Banco Urquijo, Banco Central Hispano, and the Ortega y Gasset Foundation. He is also a member of the board of directors of Unión Fenosa.

Raimo Lindgren became an independent Director of Cableuropa in November 2000. Mr. Lindgren is also an independent Director of GCO. Mr. Lindgren was President of Ericsson de Colombia from 1979 to 1983, and was subsequently President of Teleindustria Ericsson. From 1989 to 1999, he was President of Ericsson España and Ericsson Chile.

Directors of Cableuropa

The Directors of Cableuropa are as follows:

Name	Age	Title	Member of Board of Directors since	Termination
Eugenio Galdón ⁽¹⁾	53	Director and President	1997	2006
Richard Alden ⁽¹⁾	40	Managing Director	2000	2006
Nicolás Villén ⁽²⁾	54	Director	2003	2006
Leopoldo Calvo-Sotelo ⁽³⁾	78	Director	2000	2005
Raimo Lindgren ⁽³⁾	68	Director	2000	2005

- (1) Executive director.
- (2) Appointed by the shareholders of GCO.
- (3) Independent director for the purposes of the Existing Indentures.

Directors' Other Activities

The following table sets forth certain outside activities undertaken by GCO directors:

<u>Name</u>	<u>Main Activities outside of the ONO Group</u>
Eugenio Galdón	President of Grupo Multitel, S.A. Managing Director and Group Leader of the GE Structured Finance (GESF) Global Communications Team
Peter Foley.....	Team
Jack McCarthy	Managing Director of Bank of America Capital Partners Europe
David Brochet.....	Responsible for CDP Capital Communications, telecommunications investments in Europe
Bhupesh Gupta	Managing Director, Global Communications & Media for GE Corporate Financial Services
Matías Rodríguez Inciarte	Vice Chairman of SCH, Chairman of Santander-Met and Member of the Board of Banesto
Juan Carlos Muñoz.....	Responsible for telecommunications investments in SCH's industrial group
Nicolás Villén.....	Chief Economical-Financial Officer of Grupo Ferrovial, S.A. Owner of El Pozo holding company, president of the Fuertes Group and member of the Executive Committee of the Región de Murcia Confederation of Entrepreneurs
Tomás Fuertes.....	Committee of the Región de Murcia Confederation of Entrepreneurs
José Luis Ulibarri.....	President of Begar Group, Retecal, Castilla y León Radio and Televisión de Castilla y León.
Leopoldo Calvo-Sotelo	Member of the Board of Directors of Unión Eléctrica Fenosa
Raimo Lindgren	Member of the board of Directors of Ericsson España, S.A.

Board Practices

As part of the ONO Group reorganization, on February 28, 2002 the Remuneration and Appointments Committee and the Audit and Compliance Committee in Cableuropa were dissolved and on January 3, 2002 the Board of Directors of GCO established two corresponding committees that have the same functions that those corporate bodies previously had in Cableuropa.

Remuneration and Appointments Committee

GCO's Remuneration and Appointments Committee is comprised of five members of its Board of Directors, although only four members have been currently appointed. Its purpose is to oversee the ONO Group's remuneration, recruitment and human resource policies. Decisions taken by this committee are then recommended to the Board of Directors of GCO for their approval or amendment.

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

Name	Title
Jack McCarthy	President
Peter Foley.....	Member
Juan Carlos Muñoz.....	Member
Leopoldo Calvo-Sotelo	Member
Mariona Roger	Secretary
Eugenio Galdón	Observer
Richard Alden.....	Observer
Hermenegildo Simón.....	Observer

Audit and Compliance Committee

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

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

Name	Title
Juan Carlos Muñoz.....	President
Peter Foley.....	Member
David Brochet	Member
Nicolás Villén.....	Member
Raimo Lindgren	Member
Mariona Roger	Secretary
Eugenio Galdón	Observer
Richard Alden.....	Observer
Hermenegildo Simón.....	Observer

The GCO Audit and Compliance Committee now undertakes the functions previously undertaken by the Audit and Compliance Committee of Cableuropa. As a result, we have no separate audit committee.

Senior Management

The following table contains a description of certain members of our senior management team.

Name	Age	Title	Member of
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Management
Since

Richard Alden.....	40	Chief Executive Officer	1998
Michael Vorstman.....	39	Chief Financial Officer	1998
Philip Blanchette.....	55	Chief Operating Officer—Infrastructure and Operations	2001
Fernando Ojeda.....	42	Chief Operating Officer—Customers and Services	2004
Graciela Iriarte.....	42	Resources	2001
Mariona Roger.....	42	Company Secretary and Legal Services	1997
Jonathan Cumming.....	36	Group Treasurer	2000
Enrique Iglesias.....	48	Marketing and Sales	1999
Fernando Martínez de Guinea.....	41	Controller	2004
Ignacio Rebollo.....	40	Large Businesses Division	1998
Hermenegildo Simón.....	36	Internal Audit	1998
Sylvia Carrasco.....	43	Communication	2001
David Cox.....	38	Projects and Quality	2000
Juan Luis Ros.....	45	Regional Director—Mediterranean Cluster	1998
Francisco Martínez.....	47	Regional Director—Southeast Cluster	1995
Enrique Presa.....	37	Regional Director—Andalucía Cluster	2000
Rafael Sánchez.....	54	Regional Director—North Cluster	2003

Set forth below are the biographies of each of these senior managers:

Michael Vorstman is our Chief Financial Officer. From 1988 to 1992 Mr. Vorstman held a number of senior positions at AT&T companies in Spain such as Lucent Technologies, AT&T Network Systems and Unisource NV. Mr. Vorstman joined Cableuropa in July 1998 as the Treasurer and was appointed Chief Financial Officer in May 2000.

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

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

Graciela Iriarte joined Cableuropa in October 2001 as Resources Director. From July 1998 until the commencement of her employment with Cableuropa, Mrs. Iriarte was the Executive Senior Manager of Human Resources at Uni2. Mrs. Iriarte has also held various senior positions in Banco Santander and Pharmacia-Upjohn.

Mariona Roger is our Company Secretary and Director of Legal Services. She joined Cableuropa in August 1997, from Multitel where she was Company Secretary and Director of Legal Services from 1995. During her professional career, she has worked as a professor in institutions such as the "University of Barcelona" and the "Instituto de Empresa" in Madrid. She is a member of ASTEL ("Asociación de Empresas Operadoras y de Servicios de Telecomunicaciones") where she was the president for the years 1999 and 2000.

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

Enrique Iglesias is Director of Marketing and Sales. Mr. Iglesias joined Cableuropa in May 1999 as our Marketing and Sales Senior Manager for the Residential Market. From 1986 to 1993 Mr. Iglesias was Chief Operating Officer for Inestrónica, S.A. Between 1994 and 1998, he was Chief Operating Officer for the personal computers division in Digital Equipment Corporation in Spain.

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

Ignacio Rebollo joined Cableuropa in October 1997 to take responsibility for our franchise bids. From 1998 to 2000 Mr. Rebollo was

Regional Director in our North Cluster. In that year, he assumed the responsibility for Business Development and subsequently for Strategic Marketing and Interconnection. Since 2002, Mr. Rebollo has been the Director responsible for our Large Business Division. Before joining ONO, he worked for the telecommunication division of the sales area at 3M and as Sales Senior Manager for Spain and Portugal at Scientific-Atlanta.

Hermenegildo Simón joined Cableuropa in December 1998, as Director of Internal Audit. Before joining Cableuropa, Mr. Simón held several financial positions in Telefónica Sistemas where he had responsibility for the Economical Control of Projects. Mr. Simón was also previously CFO of Intrum Justitia Ibérica, S.A.

Sylvia Carrasco is our Director of Communications. Before joining Cableuropa in January 2001, Mrs. Carrasco was the Director of the Press Cabinet for the European Affairs Secretary of State in Spain. Previously, Mrs. Carrasco worked for EFE Agency in Paris, for Reuters in Madrid and as correspondent in Spain for the French publication "La Tribune de L'Economie."

David Cox is our Director of Projects and Quality. Mr. Cox joined Cableuropa in 2000 as the manager in charge for Projects in our former Internet subsidiary ONOLab. Previously, he was responsible for the NatWest Bank systems infrastructure development in Madrid. He started his professional career as a chartered accountant in Touche Ross.

Juan Luis Ros is Regional Director of Cableuropa for our Mediterranean Cluster. Mr. Ros participated in our operating launch of the Cádiz franchise in 1998 and he was the regional director of ONO in the Andalucía Cluster from the beginning of the year 2001 until he held the responsibility of the Mediterranean Cluster. Before joining Cableuropa, Mr. Ros was responsible for the development of local television networks in Spain.

Francisco Martínez is Regional Director for our Southeast Cluster. Mr. Martínez joined ONO in 1995. Previously, Mr. Martínez worked as a Chief Executive of the Business-University Foundation of Murcia and was General Director of the Business School of Murcia.

Enrique Presa is Regional Director of ONO for our North Cluster since 2003. Mr. Presa joined ONO in 2000 as sales director for our North Cluster. Before joining us, Mr. Presa held the Sales Director position for Digital in Madrid and for Compaq in the North of Spain.

Rafael Sánchez is Regional Director of ONO for our Andalucía Cluster since September 2003. Mr. Sánchez joined ONO in 1998 as the sales director of our Andalucía cluster, after an extensive experience holding different senior positions in the commercial and management areas of IBM and as consultant in the governmental department of Information and Communications Technologies.

Compensation

The amount accrued to members of the Boards of Directors of Cableuropa and GCO for fees and other remuneration, including executive remuneration, totaled €1.2 million in 2003. In addition, at December 31, 2003 the members of the Board of Directors of Cableuropa and of GCO listed above had 4,760,019 options within the framework of the Stock Option Plan. There are no service contracts or severance benefits for any of our directors with GCO or the ONO Group upon termination of employment (other than service contracts customarily provided with respect to directors).

In 2003 we launched an Incentive Plan aimed to attract and retain certain key employees and managers. The eligible employees have the right, subject to certain conditions, to receive an extraordinary bonus, with a vesting period of approximately three years. The terms of the plan provide for accrual of annual bonuses from 2003 to 2006 based on individual and ONO group performance. The bonuses are payable beginning in 2006 and continuing through 2009 in annual installments corresponding to the amount accrued three years earlier. The accrued provision as of December 31, 2003, amounting to €2.1 million, relates to the contributions vested up to the balance sheet date.

Share Ownership

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

Stock Option Plan

We have an executive fidelity option plan which includes certain current and former Directors and members of senior management and other key employees of the ONO Group. Our Board of Directors may amend the plan at any time. The terms of the plan provide for phantom options, pursuant to which participants have been granted rights that, when exercised, will entitle them to a cash sum equivalent in value to the increase in the value of Cableuropa's or GCO's share price between the date of the grant and the date of exercise. The options referenced to the share value of Cableuropa vest in three installments, with one-third of the options vesting 42 months after the date of grant and the remaining portion vesting in two equal annual installments thereafter. The plan has an initial life of ten years. In 2003, certain directors, former directors and

executives of the ONO Group were granted options referenced to the value of GCO shares.

SHAREHOLDERS AND BENEFICIAL OWNERS

Cableuropa Shareholders

As of December 31, 2003, our authorized share capital was €484,662,719 consisting of 484,662,719 ordinary shares, of €1.00 par value each. All of our ordinary shares are held by GCO, our sole shareholder.

GCO Shareholders

In February 2004, GCO completed the acquisition of 60.99% of Retecal, the cable telecommunications franchisee for the region of Castilla y León, in exchange for approximately 8.35% of the share capital of GCO, on a post acquisition basis. Following the Retecal acquisition, GCO's shareholders are as follows:

<u>Name and address of Beneficial Owner</u>	Total percentage of Ordinary Shares Beneficially Owned over total capital	Total percentage of Non-voting Shares Beneficially Owned over total capital	Total percentage of Shares Beneficially Owned over total capital
Spanish Telecommunications Limited S.à.r.l. 23A, rue N.S. Pierret, City of Luxembourg, Grand Duchy of Luxembourg	40.36%	0.00%	40.36%
GE Structured Finance, Inc.	0.00%	2.87%	2.87%
1209 Orange Street, Wilmington, Delaware 19801, United States of America			
BAS Capital Funding Corporation	0.00%	1.30%	1.30%
231 South LaSalle Street, Chicago, IL 60697, United States of America			
Capital Communications CDPQ, Inc.	0.00%	1.29%	1.29%
Centre CDP Capital, 1000, Place Jean-Paul-Riopelle, Montreal, Québec H2Z 2B3 (Canada)			
Banco Santander Central Hispano, S.A.	15.63%	2.69%	18.32%
Paseo de Pereda, 9-12, Santander, Spain			
Grupo Ferrovial, S.A.	8.50%	1.27%	9.76%
Príncipe de Vergara, 135, 28002 Madrid, Spain			
Grupo Multitel, S.A.	8.48%	0.22%	8.70%
Pedro Muñoz Seca 4, 28001 Madrid, Spain			
VAL Telecomunicaciones, S.L.	8.64%	0.41%	9.05%
Pedro Muñoz Seca 4, 28001 Madrid, Spain			
Sodinteleco, S.L.	8.35%	0.00%	8.35%
Francisco Hernández Pacheco 14, Valladolid, Spain			
Total	89.95%	10.05%	100.00%

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

Spaincom. Spanish Telecommunications Limited S.à.r.l., known as Spaincom, was incorporated in Luxembourg in April 1997 as an investment vehicle to invest in the Spanish telecommunications market. Spaincom's direct shareholders are Global Telecom Investments, L.L.C., a controlled subsidiary of GE Structured Finance, Inc. (formerly known as GE Capital Services Structured Finance Group, Inc.), with 49.7%; BAEP Telecommunications Investments, L.L.C., an indirect controlled subsidiary of BAS Capital Funding Corporation (a subsidiary of Bank of America Corporation), with 25.3%; and Particitel International Limited Partnership, an indirect controlled subsidiary of Capital Communications CDPQ, an affiliate of Caisse de dépôt et placement du Québec, with 25.0%.

- GE Structured Finance, Inc. is a leading equity and debt investor and provider of structured financing for companies in

communications, energy, commercial and industrial and transportation industries, as well as the project and trade finance markets. GE Structured Finance, Inc. is a unit of GE Commercial Finance, a financial services business of General Electric Company, a diversified manufacturing, technology and services company with worldwide operations.

- BAS Capital Funding Corporation is a vehicle through which Banc of America Equity Partners, a provider of direct equity and related investment capital for Bank of America Corporation, invests. Bank of America Corporation is one of the largest financial institutions in the United States. Bank of America Corporation's activities are concentrated in global retail banking and global wholesale banking conducted through offices in 36 countries. A subsidiary of Bank of America Corporation has appointed a director to the board of directors of GCO. Affiliates of Bank of America Corporation are managers of the offering of the Notes and act as lead dealer manager of the tender offer by ONO Finance for the Existing Notes, see "Refinancing Transactions."
- The Caisse de dépôt et placement du Québec is a financial institution that manages funds for public and private pension and insurance funds. Through certain subsidiaries, the Caisse offers private investment funds and real estate management services to external institutional investors. The leading institutional fund manager in Canada the Caisse invests in the main liquid markets as well as in private equity and real estate.

Banco Santander Central Hispano. Banco Santander Central Hispano, S.A., is Spain's leading financial institution, offering a full range of banking services to individual and corporate customers. Banco Santander Central Hispano has contributed the shares it holds in GCO, in addition to the shares it holds in other companies, to a wholly-owned Spanish vehicle, Cántabra de Inversiones, S.A.

Grupo Ferrovial. Ferrovial Telecomunicaciones, S.A., is a subsidiary of Grupo Ferrovial, S.A., an internationally diversified Group whose main line of business is construction but is also active in water treatment and supply, infrastructure development, such as urban parking, highway and airport managements and real estate and urban services.

Grupo Multitel. Grupo Multitel, S.A. is a holding company which was incorporated to provide support in the definition, launching, management and control of telecommunications and media projects in Spain. In 1992, Grupo Multitel was the first company to launch cable activities in the deregulated telecommunications market in Spain and has since then acquired significant experience in the sector. The shareholders of Grupo Multitel include Eugenio Galdón, the President of Cableuropa, who holds a majority equity interest; ETMF II, an investment fund specialized in media and telecommunications investments, sponsored by BNP Paribas, Omega Capital, a Spanish investment company with interests in various sectors; and JP Morgan Capital Partners.

VAL. VAL Telecomunicaciones, S.L. is a holding company owned by most of the former minority shareholders of our subsidiaries and Grupo Multitel, which is the largest single shareholder of VAL Telecomunicaciones, S.L. These shareholders consist primarily of regional financial institutions, regional newspapers and local businesses.

Sodinteleco. Sodinteleco, S.L. became a shareholder of GCO, after GCO's purchase of 60.99% of Retecal. Sodinteleco is a holding company owned by most of the former shareholders of Retecal including: Caja España, Grupo Begar, Caja Segovia and Caja Ávila. These shareholders consist primarily of regional financial institutions, construction companies and local businesses.

RELATED PARTY TRANSACTIONS

We pursue transactions with certain related parties or our affiliates (as defined in the U.S. Securities Act) from time to time and in the ordinary course of our business. All such related party transactions are approved or ratified by our board of directors and we believe that such transactions are based on terms at least as favorable as terms offered by unrelated parties. Set forth below is a list of our related party transactions:

- We maintain primary bank accounts with Banco Santander Central Hispano and lease vehicles and purchase computer equipment from affiliates of Banco Santander Central Hispano, and General Electric.
- We have contracted with Grupo Ferrovial, among others, for the construction and delivery of our networks.
- A subsidiary of Bank of America Corporation is a significant shareholder of GCO and has appointed a director to the board of directors of GCO. An affiliate of Bank of America Corporation is one of the arrangers of our Senior Bank Facility and is one of the providers of the foreign currency swap entered into on May 18, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa—Quantitative and Qualitative Disclosure About Market Risks." Affiliates of Bank of America Corporation have acted as managers with respect to the offerings for the Existing Notes and are acting as managers in this offering. Affiliates of Bank of America Corporation are also acting as the lead dealer manager in the tender offer by ONO Finance for the Existing Notes, see "Offering Memorandum Summary—The Refinancing Transactions."

- *Caisse de dépôt et placement du Québec*, is one of the lenders under our Senior Bank Facility.
- GCO's shareholders' agreement governs the relationship between GCO and its shareholders, but also has provisions affecting Cableuropa and its subsidiaries. For a description of GCO's shareholders' agreement, see "Management—Description of GCO's Shareholders' Agreement."
- We intend to enter into shared service agreements with Retecal over the short term in order to capture economies of scale and aggregate buying power. Such agreements will be approved or ratified by our board of directors on the basis that they are on terms at least as favorable as terms offered by unrelated parties. In addition, we have entered into agreements with Retecal in the ordinary course of our business. These agreements were concluded prior to the acquisition of Retecal by GCO.

DESCRIPTION OF OTHER INDEBTEDNESS

The Senior Bank Facility

On August 8, 2001, the ONO Group, as guarantors and borrowers, entered into an agreement with a series of international banks as arrangers of a Senior Bank Facility to provide financing of up to €800 million to fund our network construction, capital expenditure and working capital requirements. On February 13, 2003 the parties amended the facility to, among others, reduce the total amount available to €750 million, obtain the arrangers' approval of a new business plan, amend certain financial covenants, and impose a new covenant on capital expenditure. The description that follows is of the amended facility.

Under the Senior Bank Facility agreement, the borrowers must fulfill a number of conditions to borrowing availability, including certain representations and warranties, one of which is the absence of material adverse changes in the business condition or operating results of any member of the ONO Group. No assurance can be given that such conditions to borrowing will be fulfilled or that funds under the facility agreement will be made available to us. As of December 31, 2003, we had a balance of € 515 million under the facility and €545 million as of March 31, 2004.

The Facility

In general terms, the facility is intended to finance the construction, capital expenditure and working capital needs of the borrowers' telecommunications business in accordance with the agreed business plan. There are five separate tranches to the facility:

- Facility A is a revolving credit facility in an aggregate of €125 million which may only be used for the payment of invoices issued by Alcatel pursuant to a telecommunications equipment supply agreement;
- Facility B is a revolving credit facility in an aggregate amount of €255 million which can be used for general corporate purposes;
- Facility C is a term loan facility in an aggregate amount of €45 million which can be used for general corporate purposes;
- Facility D is a term loan facility in an aggregate amount of €655 million which can be used for general corporate purposes; and
- Facility E is a revolving credit facility in an aggregate amount of €50 million which can be used for general corporate purposes.

Amounts outstanding at any time under Facility A, B, C and D may not exceed €700 million and the total amount outstanding under the facilities may not exceed €750 million.

Maturity/Availability

- Facilities A and B mature on August 8, 2004, and are available until one month before this date.
- Facility C matures on December 31, 2008.
- Facility D matures on December 31, 2008, and is available until August 8, 2005.
- Facility E matures on December 31, 2008, and is available until one month before this date.

Interest/Fees. The Senior Bank Facility bears interest at a floating rate determined by reference to EURIBOR plus a margin. The margin on Facility C is 4.50% per year. The margin on the other facilities is between 1.00% and 3.25% per year depending on the ratio of group total indebtedness to consolidated annualized EBITDA. The currently applicable margin is 3.00%. The interest payments are subject to increase to compensate lenders for any additional cost of compliance with the requirements of the Bank of England, the Financial Services Authority or the European Central Bank.

The Senior Bank Facility includes a commitment fee, payable quarterly in arrears on the undrawn amount of the Senior Bank Facility, facility agent and security agent fees.

Repayment. Any advances under Facility A, Facility B and Facility E must be repaid in full on the last day of the relevant interest period. Any advances under Facility C must be repaid in full on December 31, 2008. Advances under Facility D must be repaid in accordance with an agreed repayment schedule as set out below:

Date	Percentage of Facility D to be repaid	Cumulative Percentage to be repaid
December 31, 2005	3.33	3.33
June 30, 2006.....	10.00	13.33
December 31, 2006	13.33	26.66
June 30, 2007.....	20.00	46.66
December 31, 2007	26.66	73.32
June 30, 2008.....	20.00	93.32
December 31, 2008	6.68	100.00

Security Interests. As security for the Senior Bank Facility, the lenders thereunder have been granted a first-ranking security interest in:

- Cableuropa's own shares and the shares of its subsidiaries; and
- material assets of the ONO Group to the extent that this can be granted, including material contracts, intra-group loans, bank accounts, insurance policies, and intellectual property.

The granting of these security interests is a condition precedent for availability. The Senior Bank Facility requires that any future assets that are material to each cable telecommunications network or other telecommunications business or any assets with an individual replacement value above €5 million are secured in favor of the secured creditors.

Guarantees. Each member of the ONO Group has jointly and severally guaranteed all amounts owed under the Senior Bank Facility on a senior basis.

Other. The Senior Bank Facility also contains other terms, including terms providing for:

- voluntary prepayment (subject to broken funding costs and a prepayment premium for prepayment of Facility C);
- mandatory prepayment in certain circumstances, including the receipt of amounts exceeding €10 million from certain material documents in any year, receipt of proceeds from the sale of certain assets exceeding €15 million in any one year, receipt of proceeds exceeding €400 million from certain equity issuances or subordinated debt incurrences or there being excess cash flow as calculated in accordance with the senior credit facility;
- financial and performance covenants, including maximum total capital expenditure, maximum total group senior debt to consolidated annualized EBITDA, maximum group total indebtedness to consolidated annualized EBITDA, minimum EBITDA to senior interest expense and minimum EBITDA to total interest expense;
- covenants which, among other things, limit the incurrence of additional indebtedness, assets sales, sale and leaseback arrangements, acquisitions, the making of loans and guarantees, prepayment of other indebtedness, investments, dividends, future capital expenditure and the entry into material contracts;

- covenants which, among other things, require the obligors to maintain their existence, comply with laws and regulations and maintain insurances; and
- events of default in certain circumstances.

In addition, as part of our Recapitalization, the Senior Bank Facility was amended to permit us to enter into the GCO Loan and borrow €98.5 million from GCO and to borrow an additional €22.1 million under the facility, in each case, in order to finance the acquisition of Existing Notes from GCO (which were immediately cancelled).

The Value Added Tax (VAT) Discounting Facilities

In June 2003, we entered into a €8.5 million VAT discounting facility with a group of Spanish institutions led by Unicaja, the principal savings bank in Andalucía. VAT refunds in Spain are generally received six months or more after the end of the year for which the VAT refund is due. These facilities are secured by a pledge over the VAT receivable from the Spanish tax authorities and over the account to which the VAT refunds are to be credited and will allow us access to the VAT refund at an earlier time. Borrowings under the VAT discounting facilities are limited to the extent of the minimum of 95% of our receivables from the Spanish government or €8.5 million. The facilities are paid off at the earlier of (i) the receipt of the VAT refund, or (ii) December 31 in the year after which the facilities were granted.

The Existing Notes

2009 Notes

ONO Finance completed an offering of high yield notes in May 1999. ONO Finance issued 275,000 dollar and 125,000 euro denominated units. Each dollar unit consisted of one \$1,000 principal amount 13% note due 2009 (the "2009 USD Notes") and one dollar equity value certificate which originally evidenced the right to receive the cash value of 13.82121693 shares of Cableuropa in dollars, considering €1.00 par value shares, subject to adjustment in certain circumstances. Each euro unit consisted of one € 1,000 principal amount 13% note due 2009 (the "2009 EUR Notes" and together with the 2009 USD Notes, the "2009 Notes") and one euro equity value certificate which originally evidenced the right to receive the cash value of 14.67260467 shares of Cableuropa in euro, considering €1.00 par value shares, subject to adjustment in certain circumstances. For additional information regarding the equity value certificates, see "—Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa—Tabular Disclosure of Contractual Obligations—Equity Value Certificates." The 2009 Notes were guaranteed on a senior subordinated basis by Cableuropa and our subsidiaries.

As the result of our Recapitalization, there are currently \$92,098,000 2009 USD Notes principal amount outstanding and €45,628,000 2009 EUR Notes principal amount outstanding. Interest on the 2009 Notes is paid semi-annually on May 1 and November 1 of each year. The 2009 Notes are redeemable, at ONO Finance's option, in whole or in part, at any time on or after May 1, 2004, at 106.5% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after May 1, 2007. The 2009 Notes are senior unsecured obligations of ONO Finance and rank junior to all of its future secured indebtedness and equally with all of its future senior unsecured indebtedness and senior to any of its future subordinated indebtedness. The guarantees of the Existing Notes given by Cableuropa and its subsidiaries, are senior subordinated obligations and rank junior to all of our existing and future senior indebtedness and equally with all of our existing and future senior subordinated indebtedness.

2010 Notes

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

As the result of our Recapitalization, there are currently €113,702,000 2010 Notes principal amount outstanding. Interest on the 2010 Notes is paid semi-annually on January 15 and July 15 of each year. The 2010 Notes are redeemable, at ONO Finance's option, in whole or in part, at any time on or after July 15, 2005, at 107% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after July 15, 2008. The 2010 Notes are senior unsecured obligations of ONO Finance and will rank junior to all of its future secured indebtedness and equally with all of its future senior unsecured indebtedness and senior to any of its future subordinated indebtedness. The guarantees of the 2010 Notes given by Cableuropa and its subsidiaries are senior subordinated obligations and rank junior to all of our existing and future senior indebtedness and equally with all of our existing and future senior subordinated indebtedness.

2011 Notes

ONO Finance completed an offering of high yield Notes in February 2001. ONO Finance issued 200,000 dollar and 150,000 euro denominated units. Each dollar unit consisted of one U.S. \$1,000 principal amount 14% note due 2011 (the "2011 USD Notes") and one dollar

equity value certificate which originally evidenced the right to receive the cash value of 48,985,125.80 shares of Cableuropa in dollars, considering €1.00 par value shares, subject to adjustment in certain circumstances. Each euro unit consisted of one €1,000 principal amount 14% note due 2011 (the "2011 EUR Notes," and together with the 2011 USD Notes, the "2011 Notes") and one euro equity value certificate which originally evidenced the right to receive the cash value of 45,988,313.11 shares of Cableuropa in euro, considering €1.00 par value shares, subject to adjustment in certain circumstances. For additional information regarding the equity value certificates, see "—Management's Discussion and Analysis of Financial Condition and Results of Operations of Cableuropa—Tabular Disclosure of Contractual Obligations—Equity Value Certificates." Cableuropa and our subsidiaries guaranteed the 2011 Notes on a senior subordinated basis.

As the result of our Recapitalization, there are currently \$83,514,000 2011 USD Notes principal amount outstanding and €112,053,000 2011 EUR Notes principal amount outstanding. Interest on the 2011 Notes is paid semi-annually on February 15 and August 15 of each year. The 2011 Notes are redeemable, at ONO Finance's option, in whole or in part, at any time on or after February 15, 2006, at 107% of their principal amount, plus accrued interest, declining to 100% of their principal amount, plus accrued interest, on or after February 15, 2009. The 2011 Notes are senior unsecured obligations of ONO Finance and rank junior to all of its future secured indebtedness and equally with all of its future senior unsecured indebtedness and senior to any of its future subordinated indebtedness. The guarantees of the 2011 Notes given by Cableuropa and its subsidiaries are senior subordinated obligations and rank junior to all of our existing and future senior indebtedness and equally with all of our existing and future senior subordinated indebtedness.

The Existing Indentures

The Existing Indentures governing the 2009 Notes, the 2010 Notes and the 2011 Notes contain covenants applicable to the ONO Group, limitations and requirements with respect to indebtedness, restricted payments, dividends and other payments affecting the ONO Group, the issuance and sale of capital stock of restricted subsidiaries, transactions with stockholders and affiliates, liens, asset sales, issuances of guarantees of indebtedness of the ONO Group, sale-leaseback transactions, consolidations and mergers and provision of financial statements and reports. The Existing Indentures also require ONO Finance to commence and consummate an offer to purchase the Existing Notes for 101% of their aggregate principal amount, together with any additional amounts and any accrued and unpaid interest owed on the Existing Notes to the date of purchase, upon events constituting or which may constitute a change of control of Cableuropa. These covenants are subject to important exceptions and qualifications, which are further described in the Existing Indentures.

The Existing Indentures also provide for events of default, which, if any occur, would permit or require the principal of, premium, if any, interest and other monetary obligations on the Existing Notes to become or to be declared to be immediately due and payable. Holders of the Existing Notes may under certain circumstances be entitled to receive additional payments in respect of taxes and similar charges in respect of payments on the Existing Notes. The Existing Indentures governing the Existing Notes are subject to, and governed by, the U.S. Trust Indenture Act of 1939, as amended.

The Existing Indentures governing the 2009 Notes and the euro denominated 2011 Notes have been amended in connection with the Refinancing Transactions to eliminate substantially all of the restrictive covenants, certain events of default and certain additional covenants and rights of the holders contained therein.

Multi-Borrower Credit Facilities Governing the Existing Notes

ONO Finance and the ONO Group entered into the Multi-Borrower Credit Facilities, pursuant to which ONO Finance lent to the ONO Group an amount equal to the gross proceeds from the offerings of the Existing Notes. The ONO Group appointed Cableuropa to act as its agent in connection with the Multi-Borrower Credit Facilities.

Principal, Maturity and Interest

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

Joint and Several Liability of the Borrowers

Under the Multi-Borrower Credit Facilities, the borrowers are jointly and severally liable to ONO Finance to pay principal, interest and any other amounts due.

Subordination

The Multi-Borrower Credit Facilities are subordinated to the senior debt of the borrowers to the same extent and in the same manner as the note guarantees. In the case of insolvency of the borrowers under the Insolvency Law, claims from the Multi-Borrower Credit Facilities may rank junior to contractually subordinated claims.

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

Covenants

The Multi-Borrower Credit Facilities provide that the borrowers will comply with all covenants and other agreements contained in the relevant Existing Indentures applicable to Cableuropa and its restricted subsidiaries, as the case may be.

Events of Default

Any event of default under the relevant Existing Indentures will also constitute an event of default under the Multi-Borrower Credit Facilities.

GCO Loan

In connection with our Recapitalization, we borrowed €98.5 million from GCO pursuant to a loan in order to partially fund our purchase of the Existing Notes intended for cancellation. This loan, dated February 13, 2003, matures on March 1, 2011 and carries an interest rate of 7.5% per annum, payable annually. This loan is subordinated to our obligations under the Senior Bank Facility and is *pari passu* with our obligations with respect to the Notes and the Existing Notes. GCO has confirmed that, within one month following completion of the Refinancing Transactions, Cableuropa will take all necessary actions and make all necessary submissions, including submissions to the Mercantile Registry, to convert the GCO Loan into common stock of Cableuropa. See "Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."

THE NOTES PROCEEDS LOANS

The ONO Group will enter into a Fixed Rate Note Proceeds Loan with ONO Finance, pursuant to which ONO Finance will lend the gross proceeds of the Fixed Rate Notes to Cableuropa and the other Subsidiary Guarantors, and a Floating Rate Note Proceeds Loan with ONO Finance, pursuant to which ONO Finance will lend the gross proceeds of the Floating Rate Notes to Cableuropa and the other Subsidiary Guarantors. The ONO Group will appoint Cableuropa to act as its agent in connection with the Notes Proceeds Loans.

Principal Maturity and Interest

The Notes Proceeds Loans specify the amount of initial loans provided on the closing date to the borrowers. Thereafter, at Cableuropa's discretion as agent, loans may be prepaid by a borrower so long as such amount is reborrowed immediately by another borrower. Thus the Notes Proceeds Loans will remain fully drawn during their term and Cableuropa and the other Subsidiary Guarantors will at all times until repayment owe the full principal amount on the Notes. The Notes Proceeds Loans will accrue interest at rates that match the interest accrued on the Notes. Amounts due on the Notes Proceeds Loans will be payable by Cableuropa and the other Subsidiary Guarantors to ONO Finance in order that ONO Finance, upon receipt of such amounts, will be able to satisfy its obligations to pay principal and interest on the Notes. Amounts due under the Notes Proceeds Loans will be payable to ONO Finance concurrently with ONO Finance's obligations to make payments in respect of the Notes. Accordingly, the Notes Proceeds Loans will contain provisions that match the optional and compulsory redemption provisions contained in the Indentures. In addition, the Notes Proceeds Loans will provide for a loan fee to be charged to Cableuropa and the other Subsidiary Guarantors, which will be used to pay the corporate maintenance and other expenses of ONO Finance. The Notes Proceeds Loans will also provide for the

payment of such additional amounts as may be necessary so that the net amount received by ONO Finance will not be less than amounts which ONO Finance is entitled to receive if certain taxes or other payments were not required.

Subordination

The Notes Proceeds Loans will be subordinated to the senior debt of Cableuropa and the other Subsidiary Guarantors to the same extent and in the same manner as their Subsidiary Guarantee. The Notes Proceeds Loans will be equal in right of payment with the Multi-Borrower Credit Facilities.

Upon a Repayment Event, the Notes Proceeds Loans will be pledged to the lenders under the Senior Bank Facility to secure the obligations of Cableuropa under the Senior Bank Facility, and will be assignable to a third party in the event of an enforcement by the lenders under our Senior Bank Facility of a security interest thereunder and the release by Cableuropa and the other Subsidiary Guarantors of their guarantees of the Notes. See "Description of the Notes—Ranking of the Notes and the Note Guarantees."

Covenants

The Notes Proceeds Loans will provide that we will comply with all covenants and other agreements contained in the Indentures.

Events of Default

Any event of default under the Indentures will also constitute an event of default under the Notes Proceeds Loans.

DESCRIPTION OF THE NOTES

The Issuer will issue the floating rate senior notes due 2014 offered hereby (the "Floating Rate Notes") under an indenture (the "Floating Rate Note Indenture") among the Issuer, the Note Guarantors and The Bank of New York, as Trustee (in such capacity, the "Floating Rate Trustee"). The Issuer will issue the 10.5% senior notes due 2014 offered hereby (the "Fixed Rate Notes" and, together with the Floating Rate Notes, the "Notes") under an indenture (the "Fixed Rate Note Indenture" and, together with the Floating Rate Note Indenture, the "Indentures") among the Issuer, the Note Guarantors and The Bank of New York, as Trustee (in such capacity, the "Fixed Rate Note Trustee" and, together with the Floating Rate Note Trustee, the "Trustees"). The Parent Guarantor will become a party to the Indentures upon a Repayment Event. Any references herein to a "Trustee" means the Floating Rate Trustee and/or the Fixed Rate Note Trustee, and to an "Indenture" means the Floating Rate Note Indenture and/or the Fixed Rate Note Indenture, in each case as the context may require. In addition, references herein to the Notes include the Floating Rate Notes and/or the Fixed Rate Notes, and references to the "Issuer" refer only to ONO Finance plc and not to the Company or any of its subsidiaries. The definitions of certain other terms used in this description are set forth throughout the text or under "—Certain Definitions."

The terms of the Notes include those set forth in the Indentures governing the Notes and those made part of such Indentures by reference to the Trust Indenture Act. The Indentures are not, however, required to be nor will they be qualified under the Trust Indenture Act and will not incorporate by reference all of the provisions of the Trust Indenture Act.

The registered holder of a Note will be treated as its owner for all purposes. Only registered holders will have rights under the Indentures, including, without limitation, with respect to enforcement and the pursuit of other remedies. The Notes will not be registered under the U.S. Securities Act and will therefore be subject to certain transfer restrictions.

The following description is a summary of the material terms of the Indentures. It does not, however, restate the Indentures in their entirety and where reference is made to particular provisions of an Indenture, such provisions, including the definitions of certain terms, are qualified in their entirety by reference to all of the provisions of the relevant Notes and such Indenture. You should read the Indentures because they contain additional information and because they and not this description define your rights as a holder of the Notes. A copy of the form of each of the Indentures may be obtained by requesting them from Cableuropa at the address indicated under "Where You Can Find More Information" or, if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, from the office of the paying agent in Luxembourg.

The Issuer has made an application to list the Notes on the Luxembourg Stock Exchange. The Issuer can provide no assurance that this application will be accepted. If and so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying or transfer agent in Luxembourg. See "—Payments on the Notes; Paying Agent."

Principal, Maturity and Interest

The Issuer will issue €280.0 million aggregate principal amount of Notes in this offering in denominations of €1,000 and integral multiples thereof.

The Floating Rate Notes

The Floating Rate Notes will mature on May 15, 2014 at their principal amount plus accrued and unpaid interest to the maturity date unless redeemed prior thereto as described herein. The Issuer will issue the Floating Rate Notes in the aggregate principal amount of €100 million. Subject to the covenant described under "—Certain Covenants—Limitation on Debt," the Issuer is permitted to issue additional Floating Rate Notes ("Additional Floating Rate Notes") under the Floating Rate Note Indenture from time to time. The Floating Rate Notes and any Additional Floating Rate Notes that are issued will be treated as a single class for all purposes of the Floating Rate Note Indenture, including those with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, references to the "Floating Rate Notes" for all purposes of the Floating Rate Note Indenture and in this "Description of the Notes" include references to any Additional Floating Rate Notes that are issued.

Each Floating Rate Note will bear interest at a rate per annum, reset quarterly, equal to EURIBOR plus 8.5%, as determined by the calculation agent (the "Calculation Agent"), which shall initially be the Floating Rate Note Trustee. Interest on the Floating Rate Notes will be payable quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on August 15, 2004. The Issuer will make each interest payment to the holders of record of the Floating Rate Notes on the immediately preceding February 1, May 1, August 1, and November 1. Interest on the Floating Rate Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date.

Set forth below is a summary of certain of the defined terms used in the Floating Rate Note Indenture relating solely to the Floating Rate Notes.

"Determination Date," with respect to an Interest Period, will be the day that is two TARGET Settlement Days preceding the first day of such Interest Period.

"EURIBOR" with respect to an Interest Period, will be the rate (expressed as a percentage per annum) for deposits in euros for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date that appears on Telerate Page 248 as of 11:00 a.m., Brussels time, on the Determination Date. If Telerate Page 248 does not include such a rate or is unavailable on a Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the Euro-zone inter-bank market, as selected by the Calculation Agent, after consultation with the Issuer, to provide such bank's offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., Brussels time, on such Determination Date, to prime banks in the Euro-zone interbank market for deposits in a Representative Amount in euro for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such offered quotations are so provided, the rate for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Calculation Agent will request each of three major banks in London, as selected by the Calculation Agent, after consultation with the Issuer, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Determination Date, for loans in a Representative Amount in euros to leading European banks for a three-month period beginning on the day that is two TARGET Settlement Days after the Determination Date. If at least two such rates are so provided, the rate for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the rate for the Interest Period will be the rate in effect with respect to the immediately preceding Interest Period.

"Euro-zone" means the region comprised of member states of the European Union that adopt the euro.

"Interest Period" means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and include August 14, 2004.

"Representative Amount" means an amount of not less than €1,000,000 for a single transaction in the relevant market at the relevant time.

"TARGET Settlement Day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

"Telerate Page 248" means, the display page so designated on Bridge's Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor).

The amount of interest for each day that the Floating Rate Notes are outstanding (the "Daily Interest Amount") will be calculated by

dividing the interest rate in effect for such day by 360 and multiplying the result by the principal amount of the Floating Rate Notes. The amount of interest to be paid on the Floating Rate Notes for each Interest Period will be calculated by adding the Daily Interest Amounts for each day in the Interest Period.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)) and all euro amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application.

The Calculation Agent will upon the request of any holder of Floating Rate Notes, provide the interest rate then in effect with respect to the Floating Rate Notes. All calculations made by the Calculation Agent in the absence of manifest error will be conclusive for all purposes and binding on the Issuer, the Floating Rate Note Guarantors and the holders of the Floating Rate Notes.

The Fixed Rate Notes

The Fixed Rate Notes will mature on May 15, 2014 at their principal amount plus accrued and unpaid interest to the maturity date unless redeemed prior thereto as described herein. The Issuer will issue the Fixed Rate Notes in the aggregate principal amount of €180 million. Subject to the covenant described under "—Certain Covenants—Limitation on Debt," the Issuer is permitted to issue additional Fixed Rate Notes ("Additional Fixed Rate Notes") under the Fixed Rate Note Indenture from time to time. The Fixed Rate Notes and any Additional Fixed Rate Notes that are issued will be treated as a single class for all purposes of the Fixed Rate Note Indenture, including those with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, references to the "Fixed Rate Notes" for all purposes of the Fixed Rate Note Indenture and in this "Description of the Notes" include references to any Additional Fixed Rate Notes that are issued.

Each Fixed Rate Note will bear interest at the rate of 10.5% per annum shown on the cover page of this offering memorandum from the date of the Fixed Rate Note Indenture or from the most recent interest payment date to which interest has been paid or provided for, whichever is later. Interest will be payable on each Fixed Rate Note on May 15 and November 15 of each year, commencing on November 15, 2004. Interest will be payable to holders of record on each Fixed Rate Note in respect of the principal amount thereof outstanding as of the immediately preceding May 1 or November 1, as the case may be. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months and will be paid on overdue principal and other overdue amounts at the same rate.

Ranking of the Notes and the Note Guarantees

The Notes

The Notes will:

- (a) be the Issuer's general senior unsecured obligations;
- (b) rank senior in right of payment to any and all of the Issuer's future indebtedness that is subordinated in right of payment to the Notes;
- (c) rank senior in right of payment to the Existing Equity Value Certificates;
- (d) rank equally in right of payment with all of the Issuer's existing and future unsecured indebtedness that is not subordinated in right of payment to the Notes, including the Existing Notes; and
- (e) effectively be subordinated in right of payment to all future secured indebtedness of the Issuer to the extent of the value of the assets securing such indebtedness.

The Subsidiary Guarantors' Guarantees

Each Subsidiary Guarantor's Guarantee will:

- (a) be a general unsecured obligation of the Subsidiary Guarantor that granted such Guarantee;
- (b) be subordinated in right of payment to the payment in full in cash of all of such Subsidiary Guarantor's existing and future Senior Debt,

including its obligations under the Senior Bank Facility;

- (c) rank equally in right of payment with any and all of such Subsidiary Guarantor's existing and future unsecured indebtedness that is not subordinated and is not senior in right of payment of its Subsidiary Guarantee;
- (d) rank senior in right of payment to any and all of such Subsidiary Guarantor's existing and future indebtedness that is subordinated in right of payment to its Guarantee; and
- (e) be subject to the restrictions on enforcement described below.

The Parent Guarantor's Guarantee

Each of the Indentures will provide that upon a Repayment Event the Parent Guarantor will provide a full and unconditional guarantee of the Notes. The Parent Guarantor's Guarantee will:

- (a) be the Parent Guarantor's general unsecured obligation;
- (b) rank senior in right of payment to any and all of the Parent Guarantor's existing and future indebtedness that is subordinated in right of payment to its Guarantee;
- (c) rank equally in right of payment with all of the Parent Guarantor's existing and future unsecured indebtedness that is not subordinated in right of payment to its Guarantee;
- (d) effectively be subordinated in right of payment to all existing and future secured indebtedness of the Parent Guarantor to the extent of the value of the assets securing such indebtedness;
- (e) be structurally subordinated in right of payment to all existing and future indebtedness of the Parent Guarantor's subsidiaries; and
- (f) not be subject to the restrictions on enforcement described below applicable to each Subsidiary Guarantors' Guarantee.

Upon completion of the offering, the Issuer's only material assets will be (a) the joint and several obligations of Cableuropa and the other Subsidiary Guarantors to repay the proceeds of this offering lent by the Issuer to Cableuropa and the other Subsidiary Guarantors pursuant to the Notes Proceeds Loans, and (b) the joint and several obligations of Cableuropa and the other Subsidiary Guarantors (i) to repay the proceeds from the offering of the Existing Notes lent by the Issuer to Cableuropa and the other Subsidiary Guarantors pursuant to the Multi-Borrower Credit Facilities, and (ii) to pay other expenses of the Issuer. As a result, the Issuer will rely on payments by Cableuropa and the other Subsidiary Guarantors under the Notes Proceeds Loans to provide the funds necessary to make the required payments of principal of, premium, if any, and interest on the Notes and to pay other expenses of the Issuer. The payment of all obligations of Cableuropa and the other Subsidiary Guarantors under the Notes Proceeds Loans will be subordinated in right of payment to the payment when due of all existing and future Senior Debt of Cableuropa (including the Senior Bank Facility and the VAT Discounting Facility), as the case may be. To the extent that the Subsidiary Guarantees are enforceable by the holders of the Notes, payment under any Subsidiary Guarantee also will be subordinated in right of payment to the payment when due of all existing and future Senior Debt of the relevant Subsidiary Guarantor. See "Risk Factors—Risks Relating to the Notes—The subsidiary guarantees are subordinated to all of our existing and future senior debt and upon the occurrence of a Repayment Event will be subject to limitations on the ability of Note holders to enforce their rights under the subsidiary guarantees." In addition, upon a Repayment Event, the Issuer will provide a first-ranking security interest in its rights and claims under the Notes Proceeds Loans in favor of the senior lenders under the Senior Bank Facility.

As of December 31, 2003, on a pro forma basis, after giving effect to the Refinancing Transactions as described under "Offering Memorandum Summary—The Refinancing Transactions," and "Use of Proceeds" and after excluding intercompany balances and guarantees the Issuer would have had €431.1 million principal amount of indebtedness on an unconsolidated basis (including the Notes).

As of December 31, 2003, on a pro forma basis after giving effect to the Refinancing Transactions and the conversion of the GCO Loan as described under "Use of Proceeds," "Offering Memorandum Summary—The Refinancing Transactions" and "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa," the Subsidiary Guarantors would have had consolidated outstanding Debt of €1,005.7 million (including the Senior Bank Facility).

Although the Indentures contain limitations on the amount of additional Debt which the Company and the Restricted Subsidiaries may incur, the amounts of such Debt could be substantial. The Indentures do not contain limitations on the amount of additional Debt which the Subsidiaries or Affiliates of the Company that are not Restricted Subsidiaries may incur. Subsidiaries and Affiliates of the Company that are not

Restricted Subsidiaries generally will not be subject to the restrictive covenants set forth in the Indentures. As of the Issue Date, all of the subsidiaries of Cableuropa (other than the Excluded Companies) will be Restricted Subsidiaries.

The Note Guarantees

Prior to a Repayment Event, the obligations of the Issuer under the Indentures, including the repurchase obligation resulting from a Change of Control, will be fully and unconditionally guaranteed, jointly and severally, on a senior subordinated, unsecured basis, by Cableuropa and all the existing and future Restricted Subsidiaries. These Subsidiary Guarantors currently generate substantially all of Cableuropa's consolidated revenue. Upon a Repayment Event, such obligations of the Issuer will be fully and unconditionally guaranteed on a senior, unsecured basis, by the Parent Guarantor and guaranteed by all existing and future subsidiaries subject to enforcement limitations, as described below under "—Subordination of the Subsidiary Guarantees Upon a Repayment Event."

Each Note Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Note Guarantor without rendering the Note Guarantee, as it relates to such Note Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. However, under Spanish or New York law, each of the Note Guarantees may nevertheless be subject to a claim that the relevant Note Guarantee should be limited, subordinated or voided in favor of existing or future creditors of the relevant Note Guarantor. While the Note Guarantees by their terms are governed by New York law, if any such claim were to be made, it is unclear which law would be applied to the Note Guarantees or what the outcome of any such claim would be. See "Risk Factors—Risks Relating to the Notes—Fraudulent transfer statutes may limit your rights as a holder of Notes," and "—Local insolvency laws may not be as favorable to you as those of another jurisdiction with which you may be familiar."

Subordination of the Subsidiary Guarantees Prior to a Repayment Event

Each of the Indentures will provide that prior to a Repayment Event, the Subsidiary Guarantees will be senior subordinated, unsecured, unconditional, joint and several obligations of the Subsidiary Guarantors. To the extent that the Subsidiary Guarantees may be enforceable by the holders of the Notes, the payment on the Subsidiary Guarantees will be subordinated in right of payment to the payment, when due, of all existing and future Senior Debt of the relevant Subsidiary Guarantor (including the Senior Bank Facility and the VAT Discounting Facility). The Subsidiary Guarantees will rank *pari passu* in right of payment with all Senior Subordinated Debt, including the Guarantees of the Existing Notes, and senior to all Subordinated Obligations, of the relevant Subsidiary Guarantor, including the Existing Equity Value Certificates. The Subsidiary Guarantees also will be effectively subordinated to any secured Debt of the Subsidiary Guarantors to the extent of the value of the assets securing such Debt and also to any remaining amounts.

Each Subsidiary Guarantor may not make any payment on its applicable Subsidiary Guarantee, or repurchase, redeem or otherwise retire any Notes (collectively, "pay its Subsidiary Guarantee"), if:

- (a) any amount (including principal, premium or interest) arising under or in respect of any Senior Debt is not paid within any applicable grace period (including at maturity); or
- (b) any other default (however described) on Senior Debt occurs and the maturity of such Senior Debt is accelerated or becomes payable upon demand, in each case, in accordance with its terms unless, in either case:
 - (i) the default has been cured or waived and any such acceleration has been rescinded in writing by the Representative of such Senior Debt; or
 - (ii) such Senior Debt has been paid in full in cash; *provided, however*, that the applicable Subsidiary Guarantor may pay its Subsidiary Guarantee without regard to the foregoing if the applicable Subsidiary Guarantor and the Trustee receive written notice approving such payment from the Representative of such issue of Senior Debt.

During the continuance of any default (other than a default described in clauses (a) or (b) of the preceding sentence) with respect to any Designated Senior Debt pursuant to which the maturity thereof may be accelerated or declared to be payable on demand, or on the expiration of any applicable grace period without further notice (except any notice required to affect the acceleration), the applicable Subsidiary Guarantor may not pay its Subsidiary Guarantee for a period (a "Payment Blockage Period") commencing upon the receipt by the applicable Subsidiary Guarantor and the Trustee of written notice of such default from the Representative of the holders of such Designated Senior Debt specifying an election to effect a Payment Blockage Period (a "Payment Blockage Notice") and ending 179 days thereafter (unless such Payment Blockage Period is earlier terminated;

- (a) by written notice to the Trustee and the applicable Subsidiary Guarantor from the Representative that gave such Payment Blockage Notice;

- (b) because the Representative that gave such Payment Blockage Notice gives written notice to the Trustee and the applicable Subsidiary Guarantors that such default is no longer continuing or subsisting; or
- (c) because such Designated Senior Debt has been repaid in full in cash.

Unless the holders of such Designated Senior Debt or the Representative of such holders have accelerated the maturity of such Designated Senior Debt or declared it to be payable upon demand and not rescinded such acceleration or declaration by notice in writing from the Representative of such Designated Senior Debt, the applicable Subsidiary Guarantor may (unless otherwise prohibited as described in the first sentence of preceding paragraph) resume payments on its Subsidiary Guarantee after the end or termination of such Payment Blockage Period. Not more than one Payment Blockage Notice with respect to the same event of default, any other events of default existing and known to the person giving such notice at the time of such notice, or any other events of default arising directly as a result of the occurrence which gave rise to the first-mentioned event of default, in each case in respect of the same issue of Designated Senior Debt, may be given during any consecutive 360-day period unless such event of default or such other events of default have been cured or waived for a period of not less than 90 consecutive days.

Upon any payment or distribution of the assets of any of the Subsidiary Guarantors upon a total or partial liquidation, dissolution or winding up of such Subsidiary Guarantor or in a bankruptcy, reorganization, insolvency (*concurso*), receivership, judicial intervention or similar proceeding relating to such Subsidiary Guarantor or any of its respective Property, the holders of Senior Debt will be entitled to receive payment in full in cash before the holders of the Notes are entitled to receive any payment whatsoever (including principal or interest) on the Notes, except that the holders of Notes may receive and retain (subject to applicable law) shares of ordinary stock and any debt securities that are subordinated to Senior Debt to at least the same extent as the Subsidiary Guarantees. Until the Senior Debt is paid in full in cash, any payment or distribution to which holders of the Notes would be entitled but for the subordination provisions of the Indentures will be made to holders of the Senior Debt. If a payment or distribution is made to, on behalf or for the benefit of, holders of Notes that, due to the subordination provisions, should not have been made to them, such holders are required to hold it in trust for the holders of Senior Debt and pay it over to them as their interests may appear (as notified by the holders of Senior Debt or their Representative).

If payment of any Notes is accelerated when any Designated Senior Debt is outstanding, each Subsidiary Guarantor may not pay its Subsidiary Guarantee until ten Business Days after the Representatives of all issues of Designated Senior Debt receive notice of such acceleration and, thereafter, may pay its Subsidiary Guarantee only if the Indentures otherwise permit payment at that time.

By reason of such subordination provisions, in the event of bankruptcy, reorganization, insolvency (*concurso*) or similar proceedings relating to a Subsidiary Guarantor, holders of Senior Debt and other creditors (including trade creditors) of such Note Guarantor may recover more ratably, even if the applicable Subsidiary Guarantee is *pari passu* with their claims, than the holders of the Notes. In such event, there may be insufficient assets or no assets remaining or available to pay the principal of or interest on the Notes.

Subordination of the Subsidiary Guarantees Upon a Repayment Event

Each of the Indentures will provide that upon a Repayment Event, the Subsidiary Guarantees will be subordinated pursuant to the terms described below in "—Enforcement Standstills," "—Payment Blockage Provisions," "—Subordination on Insolvency" and "—Turnover."

Enforcement Standstills

Each of the Indentures will provide that, upon and after a Repayment Event, no Subsidiary Guarantee may become due, and that neither the holders of the Notes nor the Trustees may take any Enforcement Action against a Subsidiary Guarantor without the prior consent of the applicable Representative unless:

- (a) certain insolvency or reorganization events have occurred in relation to such Subsidiary Guarantor; or
- (b) the holders of Designated Senior Debt have taken any Enforcement Action in relation to such Subsidiary Guarantor; or
- (c) a Default has occurred under the Notes; and
 - (i) the holders of Notes or the Trustee has notified the applicable Representative; and
 - (ii) a period of not less than 179 days has passed from the date the applicable Representative was notified of the default (a "Standstill Period"); and
 - (iii) at the end of the Standstill Period, the Default is continuing and has not been waived by the holders of the Notes.

Payment Blockage Provisions

Each of the Indentures will provide that, upon and after a Repayment Event, a Subsidiary Guarantor may not make any payment in respect of its Subsidiary Guarantee (except for payments in Permitted Junior Securities or from the trust, if any, described under "—Legal Defeasance or Covenant Defeasance of Indentures") if:

- (a) a payment default on Designated Senior Debt of such Subsidiary Guarantor has occurred and is continuing beyond any applicable grace period; or
- (b) any other default occurs and is continuing on any Designated Senior Debt of such Subsidiary Guarantor that permits the holders of such Designated Senior Debt to accelerate its maturity and the Trustee receives a notice of such default (a "Payment Blockage Notice") from the Issuer or the holders of such Designated Senior Debt.

Payments on any such Subsidiary Guarantee may and will be resumed:

- (i) in the case of a payment default, when such default is cured or waived; or
- (ii) in the case of a non-payment default, upon the earlier of the date on which such non-payment default is cured or waived and 179 days after the date on which the applicable Payment Blockage Notice is received, unless the maturity of any Designated Senior Debt has been accelerated.

Not more than one Payment Blockage Notice with respect to the same event of default, any other events of default existing and known to the person giving such notice at the time of such notice, or any other events of default arising directly as a result of the occurrence which gave rise to the first-mentioned event of default, in each case in respect of the same issue of Designated Senior Debt, may be given during any consecutive 360-day period unless such event of default or such other events of default have been cured or waived for a period of not less than 90 consecutive days.

Release of the Subsidiary Guarantees

Subject to the following paragraph, the Subsidiary Guarantee of a Subsidiary Guarantor and any Guarantees of its Subsidiaries, once it becomes due, is a continuing guarantee and shall (a) remain in full force and effect until payment in full of all of its obligations under the Subsidiary Guarantee, (b) be binding upon each Subsidiary Guarantor and its successors and (c) inure to the benefit of, and be enforceable by, the Trustee, the holders and their successors, transferees and assigns.

Each Subsidiary Guarantor will automatically and unconditionally be released from all obligations under its Subsidiary Guarantee, and such Subsidiary Guarantee shall thereupon terminate and be discharged and be of no further force or effect, concurrently with any sale by way of enforcement by the senior lenders under the Senior Bank Facility of a security interest therein of (x) all of the Capital Stock of such Subsidiary Guarantor or any parent company of such Subsidiary Guarantor or (y) all or substantially all of the assets of such Subsidiary Guarantor, in each case so long as:

- (A) the proceeds of such sale are in cash (or substantially all in cash) and are applied in the manner described under "—Subordination on Insolvency";
- (B) such Subsidiary Guarantor is released from its obligations in respect of all other Debt that is subordinated or junior in right of payment to the Notes and all other debt ranking equally with the Notes; *provided, however*, that nothing in this clause (B) shall require the release by the Subsidiary Guarantors or any of their Subsidiaries of any of its or their obligations in respect of any other Debt that is senior in right of payment to the Notes, including any of their obligations in respect of the Senior Bank Facility; and
- (C) the sale is made pursuant to either a public auction or a competitive bid process to obtain the best price reasonably obtainable given the then-current condition (financial or otherwise), earnings, business, assets and prospects of such Subsidiary Guarantor and its Subsidiaries, the senior lenders under the Senior Bank Facility having consulted with an internationally recognized investment bank (including without limitation and to the extent appropriate a lender under the Senior Bank Facility or a relationship bank of the Company or its Subsidiaries) or an internationally recognized accounting firm regarding the appropriate procedures for obtaining the best price for the shares or assets, considered the recommendations of that investment bank or accounting firm and used its reasonable efforts to cause the procedures recommended by that investment bank or accounting firm to be implemented in all material respects in relation to the sale and to permit holders to participate in the sale process as bidders *provided, however*, that the senior lenders under the Senior Bank Facility shall not be under any further obligation to cause such recommendation to be implemented to the extent not implemented in

connection with such sale by the relevant court, authority or other third party required to act in connection with such sale; *provided further, however*, that such reasonable efforts will, to the extent permitted by applicable law, include attempting to conduct such sale process other than through a court or legal proceeding.

Upon the presentation of an Officer's Certificate with respect to the occurrence of an event specified in the preceding paragraph, the Trustee will execute any documents reasonably required in order to evidence such release, discharge and termination in respect of the Subsidiary Guarantee.

Neither the Issuer nor any Subsidiary Guarantor will be required to make a notation on the Notes to reflect the Subsidiary Guarantee or any such release, termination or discharge. In the event that the Subsidiary Guarantor is released from its obligations under the Subsidiary Guarantee at a time when the Notes are listed on the Luxembourg Stock Exchange, the Issuer will, to the extent required by the rules of the Luxembourg Stock Exchange, publish notice of the release of the Subsidiary Guarantee in a daily leading newspaper with general circulation in Luxembourg (expected to be the *Luxemburger Wort*) and send a copy of such notice to the Luxembourg Stock Exchange.

In addition, the Subsidiary Guarantee of a Subsidiary Guarantor will be released:

- (i) in connection with any sale or other disposition of all or substantially all of the assets of such Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Issuer, the Parent Guarantor or a Restricted Subsidiary, if the sale or other disposition is an Asset Sale and does not violate the covenant set forth under the heading "—Certain Covenants—Limitation on Sale of Certain Assets";
- (ii) in connection with any sale or other disposition of all of the Capital Stock of such Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) the Issuer, the Parent Guarantor or a Restricted Subsidiary, if the sale or other disposition is an Asset Sale and does not violate the covenant set forth under the heading "—Certain Covenants—Limitation on Sale of Certain Assets";
- (iii) upon legal defeasance of the Issuer's obligations or satisfaction and discharge of the Indentures; or
- (iv) upon designation of such Subsidiary Guarantor as an Unrestricted Subsidiary in accordance with the terms of the Indentures, including the covenant described under "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries."

See "—Certain Covenants—Limitation on Sale of Certain Assets."

Subordination on Insolvency

Each of the Indentures will provide that, upon and after a Repayment Event, in the event of any distribution to the creditors of a Subsidiary Guarantor:

- (a) in a total or partial liquidation, dissolution or winding up of such Subsidiary Guarantor;
- (b) in an insolvency, bankruptcy, reorganization, composition, receivership, administration, voluntary arrangement, judicial intervention or similar proceeding (*quiebra, suspensión de pagos o concurso*) relating to such Subsidiary Guarantor or any of its properties;
- (c) in an assignment for the benefit of the creditors of such Subsidiary Guarantor; or
- (d) in any marshalling of any such Subsidiary Guarantor's assets and liabilities;

the holders of Senior Debt of such Subsidiary Guarantor will be entitled to receive payment in full in cash of all obligations in respect of such Senior Debt (including interest after the commencement of any proceeding at the rate specified in the applicable Senior Debt whether or not allowed or allowable in any such proceeding) before the holders of Notes will be entitled to receive any payment with respect to the Subsidiary Guarantee of such Subsidiary Guarantor (except that holders of Notes may receive and retain Permitted Junior Securities and payments made from the trust, if any, described under "—Legal Defeasance or Covenant Defeasance of Indentures").

As a result of the enforcement standstills, payment blockage provisions and other subordination provisions described above, holders of Notes may recover less, ratably, in the event of an insolvency, bankruptcy, liquidation or reorganization of any Subsidiary Guarantor than other creditors of such Subsidiary Guarantor, including trade creditors.

Turnover

Each of the Indentures will provide that, upon and after a Repayment Event, if the Trustee receives a payment in respect of the Notes (except for payments in Permitted Junior Securities or from the trust, if any, described under "—Legal Defeasance or Covenant Defeasance of Indentures") when:

- (a) the payment is prohibited by the provisions of the Indentures described in this "—Subordination of the Subsidiary Guarantees Upon a Repayment Event" section; and
- (b) the Trustee has actual knowledge that payment is so prohibited;

then the Trustee will hold the payment on trust for the benefit of the holders of the relevant Senior Debt and, upon the proper written request of the holders of the relevant Senior Debt, the Trustee will deliver the amounts in trust to the Representative or any other proper representative of the holders of the relevant Senior Debt.

Intercreditor Agreement

Each of the Indentures will provide that upon a Repayment Event the Issuer, each Note Guarantor and the Trustee will be authorized (without any further consent of the holders of Notes) to enter into any intercreditor agreement or deed in favor of the holders of Senior Debt of the Subsidiary Guarantors to give effect to the preceding subordination provisions of each of the Indentures described in the section "—Subordination of the Subsidiary Guarantees Upon a Repayment Event." Each of the Indentures shall provide that such preceding subordination provisions shall constitute a continuing offer to all persons who become holders of or continue to hold Senior Debt, and such provisions are made for the benefit of the holders of Senior Debt and such holders will be obligees under the applicable Indentures and any one or more of them may enforce such subordination provisions.

The foregoing subordination provisions may not be amended or modified without the written consent of the holders of all Senior Debt.

Each of the Indentures will also provide that each holder of a Note, by accepting such Note, will be deemed to have:

1. appointed and authorized the Trustees to give effect to such subordination provisions;
2. authorized the Trustees to become a party to any future intercreditor arrangements described above;
3. agreed to be bound by such subordination provisions and the provisions of any future intercreditor arrangements described above that do not materially adversely affect the rights of holders of the Notes; and
4. irrevocably appointed the Trustees to act on its behalf to enter into and comply with such subordination provisions and the provisions of any future intercreditor arrangements described above.

Form of Notes

The Notes will be issued on the Issue Date only in fully registered form without coupons and only in denominations of €1,000 and any integral multiple thereof.

The Notes will be initially in the form of two or more global notes (the "Global Notes"). The Global Notes will be deposited with a common depositary for Euroclear S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream Banking") or a nominee of such common depositary. Ownership of interests in the Global Notes, referred to in this description as "book-entry interests," will be limited to persons that have accounts with Euroclear or Clearstream Banking or their respective participants. The terms of the Indentures will provide for the issuance of definitive registered Notes in certain circumstances. See "Book-Entry; Delivery and Form."

Transfer

The Notes will be subject to certain restrictions on transfer and certification requirements, as described under "Notice to Investors."

All transfers of book-entry interests between participants in Euroclear or Clearstream Banking will be effected by Euroclear or Clearstream Banking pursuant to customary procedures and subject to applicable rules and procedures established by Euroclear or Clearstream Banking and their respective participants. See "Book-Entry; Delivery and Form." In addition, the Indentures will provide for the transfer of the Notes by the Luxembourg Transfer Agent so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

Payments on the Notes; Paying Agent

The Issuer will make all payments, including principal of, premium, if any, and interest on the Notes, at its office or through an agent in London, England that it will maintain for these purposes. Initially, that agent will be the corporate trust office of the Trustee. In addition, so long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer may also make such payments at the offices of the paying agent in Luxembourg. The Bank of New York (Luxembourg) S.A. will act as paying agent in Luxembourg. Subject to the requirement to maintain an agent in London the Issuer may change the paying agent without prior notice to the holders of the Notes. In addition, the Issuer may act as paying agent in connection with the Notes other than for the purposes of effecting a redemption described under "—Optional Redemption" or an offer to purchase the Notes described under either of "—Repurchase at the Option of Holders Upon a Change of Control" and "—Certain Covenants—Limitation on Sale of Certain Assets." The Issuer will make all payments in same-day funds. Payments on the Global Notes will be made to the common depositary as the registered holder of the Global Notes.

The Issuer undertakes that, if European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 is brought into force, it will ensure that it maintains a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to such Directive.

No service charge will be made for any registration of transfer, exchange or redemption of the Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange.

Additional Amounts

All payments that the Issuer makes under or with respect to the Notes or that any Note Guarantor makes under or with respect to any Note Guarantee will be made free and clear of, and without withholding or deduction for or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charges (including, without limitation, penalties, interest and other similar liabilities related thereto) of whatever nature (collectively, "Taxes") imposed or levied by or on behalf of any jurisdiction in which the Issuer, any Note Guarantor or any surviving Person is incorporated, organized or otherwise resident for tax purposes or from or through which any of the foregoing makes any payment on the Notes or by or within any department or political subdivision thereof (each, a "Relevant Taxing Jurisdiction"), unless the Issuer or such Note Guarantor, as the case may be, is required to withhold or deduct Taxes by law or by the interpretation or administration of law. If the Issuer or a Note Guarantor is required to withhold or deduct any amount for, or on account of, Taxes of a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes, the Issuer or such Note Guarantor, as the case may be, will pay additional amounts ("Additional Amounts") as may be necessary to ensure that the net amount received and retained by each holder of the Notes (including Additional Amounts) after such withholding, deduction, imposition or levy will be not less than the amount the holder would have received and retained if such Taxes had not been required to be withheld or deducted.

Neither the Issuer nor any Note Guarantor will, however, pay Additional Amounts to a holder or beneficial owner of Notes in respect or on account of:

- (a) any Taxes that are imposed or levied by a Relevant Taxing Jurisdiction by reason of the holder's or beneficial owner's present or former connection with such Relevant Taxing Jurisdiction (other than the mere receipt or holding of Notes or by reason of the receipt of payments thereunder or the exercise or enforcement of rights under any Notes or the relevant Indenture);
- (b) any Taxes that are imposed or levied by reason of the failure of the holder or beneficial owner of Notes, following the Issuer's written request addressed to the holder (and made at a time that would enable the holder or beneficial owner acting reasonably to comply with that request), to comply with any certification, identification, information or other reporting requirements, whether required by statute, treaty, regulation or administrative practice of a Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of withholding or deduction of, Taxes imposed by the Relevant Taxing Jurisdiction (including, without limitation, a certification that the holder or beneficial owner is not resident in the Relevant Taxing Jurisdiction);

- (c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (d) any Tax that is payable otherwise than by withholding or deduction from payments made under, or with respect to, the Notes;
- (e) any Tax that is imposed or levied by reason of the presentation (where presentation is required in order to receive payment) of such Notes for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the holder beneficial owner thereof would have been entitled to Additional Amounts had the Notes been presented for payment on any date during such 30 day period;
- (f) any withholding or deduction in respect of any Taxes where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (g) any Tax that is imposed on or with respect to a payment made to a holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant Notes to another paying agent in a Member State of the European Union.

The Issuer and any Note Guarantor will (i) make such withholding or deduction as is required by applicable law and (ii) remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law.

At least 30 calendar days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer or any Note Guarantor will be obligated to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), the Issuer will deliver to the relevant Trustee an Officer's Certificate stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the relevant Trustee to pay such Additional Amounts to holders on the payment date. The Issuer will promptly publish a notice in accordance with the provisions set forth in "—Notices" stating that such Additional Amounts will be payable and describing the obligation to pay such amounts.

Upon request, the Issuer or any Note Guarantor, as the case may be, will furnish to a holder of the Notes copies of tax receipts evidencing the payment of any Taxes by the Issuer or such Note Guarantor in such form as provided in the normal course by the taxing authority imposing such Taxes and as is reasonably available to the Issuer or such Note Guarantor. If, notwithstanding the efforts of the Issuer to obtain such receipts the same are not obtainable, the Issuer or such Note Guarantor will provide such holder with other evidence reasonably satisfactory to the holder of such payments by the Issuer or such Note Guarantor.

In addition, the Issuer and any Note Guarantor will pay any present or future stamp, issue, registration, court documentation, excise or property taxes or other similar taxes, charges and duties, including interest and penalties with respect thereto, imposed by or in any Relevant Taxing Jurisdiction in respect of the execution, issue or delivery of the Notes or any other document or instrument referred to thereunder and any such taxes, charges or duties imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Notes or any other such document or instrument following the occurrence of any Event of Default with respect to the Notes.

Whenever an Indenture or this "Description of the Notes" refers to, in any context, the payment of principal, premium, if any, interest or any other amount payable under or with respect to any Note, such reference includes the payment of Additional Amounts, if applicable.

Currency Indemnity

Euro is the sole currency of account and payment for all sums payable under the Notes, any Note Guarantees and the Indentures. Any amount received or recovered in respect of the Notes or any Note Guarantee in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer, any Subsidiary or otherwise) by a holder of the Notes in respect of any sum expressed to be due to such holder from the Issuer or a Note Guarantor will constitute a discharge of such obligation only to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in such other currency on the date of that receipt or recovery (or, if it is not possible to purchase euro on that date, on the first date on which it is possible to do so). If the euro amount that could be recovered following such a purchase is less than the euro amount expressed to be due to the recipient under any Note, the Issuer and any Note Guarantors will jointly and severally indemnify the recipient against the cost of the recipient's making a further purchase of euro in an amount equal to such difference. For the purposes of this paragraph, it will be sufficient for the holder to certify that it would have suffered a loss had the actual purchase of euro been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of euro on that date had not been possible, on the first date on which it would have been possible). These indemnities, to the extent permitted by law:

- (a) constitute a separate and independent obligation from the Issuer's and any Note Guarantor's other obligations;
- (b) give rise to a separate and independent cause of action;
- (c) apply irrespective of any waiver granted by any holder of a Note; and
- (d) will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

Optional Redemption

Floating Rate Notes

At any time and from time to time, prior to May 15, 2006 Cableuropa may, at its option, use the proceeds of one or more Public Equity Offerings to make prepayments under the Floating Rate Note Proceeds Loan to enable the Issuer to, and the Issuer will be required to use any such prepayments to, redeem up to a maximum of 35% of the aggregate principal amount of the Floating Rate Notes (calculated giving effect to any issuance of Additional Notes) at a redemption price equal to 100% of the principal amount thereof plus a premium equal to the interest rate per annum on the Floating Rate Notes applicable on the date on which notice of redemption is given plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided, however*, that after giving effect to any such redemption, at least 65% of the aggregate principal amount of the Floating Rate Notes remains outstanding (calculated giving effect to any issuance of Additional Notes); *provided, further, however*, that prior to May 15, 2006, to the extent that the Issuer redeems any Floating Rate Notes pursuant to this provision, it shall also redeem Fixed Rate Notes as provided below, on a pro-rata basis based on the aggregate principal amount of Floating Rate Notes and Fixed Rate Notes then outstanding (calculated giving effect to any issuance of Additional Notes). The Issuer shall make any such redemption within 90 days following the closing of any such Public Equity Offering upon not less than 30 nor more than 60 days' prior notice.

At any time on or after May 15, 2006, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem all or part of the Floating Rate Notes. These redemptions will be in amounts of €1,000 or integral multiples thereof at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on May 15 of the years set forth below.

<u>Year</u>	<u>Redemption Price</u>
2006	103.000%
2007	102.000%
2008	101.000%
2009 and thereafter	100.000%

The Senior Bank Facility may restrict Cableuropa and the other Subsidiary Guarantors from making prepayments under the Floating Rate Note Proceeds Loan which would enable the Issuer to repurchase the Floating Rate Notes pursuant to the redemption provisions described herein without first obtaining the consent of the lenders party thereto (or their Representative).

Fixed Rate Notes

At any time prior to May 15, 2009 the Issuer may redeem all or a part of the Fixed Rate Notes upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Fixed Rate Notes redeemed plus the Applicable Premium (calculated as of a date no more than three Business Days prior to the relevant redemption notice) as of, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption.

At any time and from time to time, prior to May 15, 2007 Cableuropa may, at its option, use the proceeds of one or more Public Equity Offerings to make prepayments under the Fixed Rate Note Proceeds Loan to enable the Issuer to, and the Issuer will be required to use any such prepayments to, redeem up to a maximum of 35% of the aggregate principal amount of the Fixed Rate Notes (calculated giving effect to any issuance of Additional Notes) at a redemption price equal to 110.5% of the principal amount thereof plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided, however*, that after giving effect to any such redemption, at least 65% of the aggregate principal amount of the Fixed Rate

Notes remains outstanding (calculated giving effect to any issuance of Additional Notes); *provided, further, however*, that prior to May 15, 2006, to the extent that the Issuer redeems any Fixed Rate Notes pursuant to this provision, it shall also redeem Floating Rate Notes as provided above, on a pro-rata basis based on the aggregate principal amount of Fixed Rate Notes and Floating Rate Notes then outstanding (calculated giving effect to any issuance of Additional Notes). The Issuer shall make any such redemption within 90 days following the closing of any such Public Equity Offering upon not less than 30 nor more than 60 days' prior notice.

At any time on or after May 15, 2009, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem all or part of the Fixed Rate Notes. These redemptions will be in amounts of €1,000 or integral multiples thereof at the following redemption prices (expressed as percentages of their principal amount at maturity), plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on May 15 of the years set forth below.

<u>Year</u>	<u>Redemption Price</u>
2009	105.250%
2010	103.500%
2011	101.750%
2012 and thereafter	100.000%

The Senior Bank Facility may restrict Cableuropa and the other Subsidiary Guarantors from making prepayments under the Fixed Rate Note Proceeds Loan which would enable the Issuer to repurchase the Fixed Rate Notes pursuant to the redemption provisions described herein without first obtaining the consent of the lenders party thereto (or their Representative).

Optional Tax Redemption

Each of the Indentures will provide that if, as a result of:

- (a) any amendments after the date of the Indenture to, or changes after the date of the Indenture in the laws (or regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction; or
- (b) any changes after the date of the Indenture in the official application or official interpretation of the laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice) of any Relevant Taxing Jurisdiction;

the Issuer, any Note Guarantor or any surviving Person would be obligated to pay, on the next date for any payment and as a result of any such amendment or change, Additional Amounts, as described above under "—Additional Amounts," with respect to the Relevant Taxing Jurisdiction, which the Issuer, any Note Guarantor or any surviving Person cannot avoid by the use of reasonable measures available to it, then the Issuer may redeem all, but not less than all, of the Notes at any time thereafter, upon not less than 30 nor more than 60 days' notice, at a redemption price of 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. Prior to the giving of any notice of redemption described in this paragraph, the Issuer will deliver to the Trustee:

- (i) an Officer's Certificate of the Issuer stating that the obligation to pay such Additional Amounts cannot be avoided by the Issuer or any Note Guarantor or surviving Person taking reasonable measures available to it; and
- (ii) a written opinion of independent legal counsel to the Issuer of recognized standing to the effect that the Issuer or any Note Guarantor or surviving Person has or will become obligated to pay such Additional Amounts as a result of a change, amendment, official interpretation or application described above.

For the avoidance of doubt, measures will be deemed not to be "reasonable" if they would breach the provisions of the Indentures.

Notice of Optional Redemption

The Issuer will publish a notice of any optional redemption of the Notes described above in accordance with the provisions of the Indentures described under "—Notices." If the Notes are listed at such time on the Luxembourg Stock Exchange, the Issuer will inform the Luxembourg Stock Exchange of the principal amount of the Notes that have not been redeemed in connection with any optional redemption. If fewer than all the Notes are to be redeemed at any time, the Trustee will select the Notes by a method that complies with the requirements, as certified to the Trustee by the Issuer, of the principal securities exchange, if any, on which the Notes are listed at such time or, if the Notes are not

listed on a securities exchange, pro rata, by lot or by such other method as the Trustee in its sole discretion shall deem fair and appropriate; *provided, however* that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than €1,000.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes prior to their maturity. Under certain circumstances, however, the Issuer may be required to offer to purchase the Notes as described under the captions "—Repurchase at the Option of Holders Upon a Change of Control" and "—Certain Covenants—Limitation on Sale of Certain Assets." The Issuer, the Company and the Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

No Sinking Fund

There will be no mandatory sinking fund payments with respect to the Notes.

Repurchase at the Option of Holders Upon a Change of Control

Upon the occurrence of a Change of Control, each holder of Notes shall have the right to require the Issuer to repurchase all or any part (equal to €1,000 or an integral multiple thereof) of such holder's Notes pursuant to the offer (the "Change of Control Offer") described below at a purchase price (the "Change of Control Purchase Price") equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (the "Change of Control Purchase Date") (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following any Change of Control, the Issuer and the Company shall:

- (a) cause a notice of the Change of Control Offer to be sent to the Dow Jones News Service and Reuters News Service or similar business news services (and, if and so long as Notes are listed on the Luxembourg Stock Exchange and the rules of such Stock Exchange shall so require, publish a notice in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*)); and
- (b) in the event the Notes are in the form of definitive Notes, send, by first-class mail, with a copy to the Trustee, to each holder of Notes, at such holder's address as it appears on the registration books of the Registrar, a notice stating:
 - (i) that a Change of Control has occurred and a Change of Control Offer is being made pursuant to the covenant entitled "Repurchase at the Option of Holders Upon a Change of Control" and that all Notes timely tendered will be accepted for payment;
 - (ii) the Change of Control Purchase Price and the Change of Control Purchase Date, which shall be, subject to any contrary requirements of applicable law, a business day no earlier than 30 days nor later than 60 days from the date such notice is given;
 - (iii) the circumstances and relevant facts regarding the Change of Control; and
 - (iv) the procedures that holders of Notes must follow in order to tender their Notes (or portions thereof) for payment, and the procedures that holders of Notes must follow in order to withdraw an election to tender Notes (or portions thereof) for payment.

The Issuer and each of the Note Guarantors will comply, in each case to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations, including any securities laws of the United Kingdom, Spain and Luxembourg and the requirements of the Luxembourg Stock Exchange or any other securities exchange on which the Notes are listed, in connection with the Repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Issuer and each of the Note Guarantors will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant described hereunder by virtue of such compliance.

The Change of Control repurchase feature is a result of negotiations between the Issuer, the Company and the Initial Purchasers of the Notes. Neither GCO nor the Company has a present intention to engage in a transaction involving a Change of Control, although it is possible that GCO or the Company would decide to do so in the future. Subject to certain covenants described below, GCO or the Company could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indentures, but that could increase the amount of Debt outstanding at such time or otherwise affect the Company's capital structure or credit ratings.

The definition of Change of Control includes a phrase relating to the sale, transfer, assignment, lease, conveyance or other disposition of "all or substantially all" of the Company's assets. Although there is existing case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require the Issuer to repurchase such Notes as a result of a sale, transfer, assignment, lease, conveyance or other disposition of less than all the assets of the Company may be uncertain.

The Senior Bank Facility may restrict Cableuropa from making prepayments under the Notes Proceeds Loans which would enable the Issuer to purchase any Notes (without first obtaining the consent of the lenders party thereto (or their Representative)), and also provides that the occurrence of certain of the events that would constitute a Change of Control would constitute a default under the Senior Bank Facility. In addition, other future Debt of the Issuer, the Company or the other Note Guarantors may contain prohibitions on certain activities which would result in a Change of Control or require such Debt to be repurchased upon a Change of Control. To the extent other Debt of the Issuer, the Company or any of the other Note Guarantors is subject to similar repurchase obligations in the event of a Change of Control and such Debt ranks senior in right of payment to the Notes, all available funds will first be expended for the repurchase of such Debt. Moreover, the exercise by holders of Notes of their right to require the Issuer to repurchase such Notes could cause a default under existing or future Debt of the Company or the other Note Guarantors, even if the Change of Control itself does not constitute a default thereunder, due to the financial effect of such repurchase on the Issuer, the Company or such other Note Guarantors.

Finally, the Issuer's ability to pay cash to holders of Notes upon a repurchase (as a result of prepayments by Cableuropa under the Notes Proceeds Loans) may be limited by Cableuropa's and the other Subsidiary Guarantors' then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make prepayments under the Notes Proceeds Loans to enable the Issuer to make any required repurchases. The Issuer's failure to repurchase Notes in connection with a Change of Control, unless waived or modified, would result in a Default under the Indentures which would, in turn, constitute a default under existing (and may constitute a default under future) Debt of the Issuer, the Company and the other Note Guarantors. If such Debt constitutes Designated Senior Debt, the subordination provisions in the indentures with respect to the Note Guarantees (and the subordination provisions in the Notes Proceeds Loans) would likely restrict payment to holders of Notes. The provisions under the Indentures regarding the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified (at any time prior to the occurrence of such Change of Control) with the written consent of the holders of a majority in aggregate principal amount of the outstanding Notes. See "—Amendments, Supplements and Waivers."

Certain Covenants

Limitation on Debt

Each of the Indentures will provide that the Issuer shall not Incur, directly or indirectly, any Debt (including Acquired Debt) unless, after giving pro forma effect to the application of the proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence and such Debt is Permitted Debt of the Issuer. The Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, Incur, directly or indirectly, any Debt (including Acquired Debt) unless, after giving pro forma effect to the application of the proceeds thereof, no Default or Event of Default would occur as a consequence of such Incurrence or be continuing following such Incurrence and either (a) (i) prior to the date that is two years from the Issue Date, the Debt of the Company and the Restricted Subsidiaries, on a consolidated basis, including any Debt Incurred pursuant to the exceptions set forth in the second following paragraph, shall be less than the product of Annualized Pro Forma EBITDA for the Company and the Restricted Subsidiaries for the latest fiscal quarter for which interim financial statements are available immediately preceding the date on which such additional Debt is Incurred, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Debt had been Incurred at the beginning of such period, multiplied by 7.0 and (ii) after the date that is two years after the Issue Date, the Debt of the Company and the Restricted Subsidiaries, on a consolidated basis, including any Debt Incurred pursuant to the exceptions set forth in the second following paragraph, shall be less than the product of Annualized Pro Forma EBITDA for the Company and the Restricted Subsidiaries for the latest fiscal quarter for which interim financial statements are available immediately preceding the date on which such additional Debt is Incurred, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Debt had been Incurred at the beginning of such period, multiplied by 5.5, or (b) such Debt is Permitted Debt of the Company and the Restricted Subsidiaries.

The term "Permitted Debt of the Issuer" is defined to include the following:

- (a) Debt of the Issuer evidenced by the Notes;
- (b) Debt of the Issuer the proceeds of which are loaned to the Company and/or the Restricted Subsidiaries under an agreement or agreements substantially similar to either the Notes Proceeds Loans or the Multi-Borrower Credit Facilities; *provided, however*, that the Company and the Restricted Subsidiaries shall have the ability to Incur the Debt under any such agreement or agreements under the terms of this covenant; and
- (c) Debt of the Issuer outstanding on the Issue Date not otherwise described in clauses (a) and (b) above (including, without limitation, the

Existing Notes and the Existing Equity Value Certificates).

The term "Permitted Debt of the Company and the Restricted Subsidiaries" is defined to include the following:

- (a) Debt of the Company and the Restricted Subsidiaries (i) evidenced by the Note Guarantees relating to the Notes and (ii) under the Notes Proceeds Loans;
- (b) Debt under Credit Facilities in an aggregate principal amount at any one time outstanding not to exceed €900.0 million, minus the amount of any permanent repayments or prepayments of such Debt with the proceeds of Asset Sales made in accordance with "— Limitation on Sale of Certain Assets" (but only to the extent of any corresponding commitment reduction if such Debt is revolving credit borrowings);
- (c) Debt of the Company owing to and held by any Restricted Subsidiary and Debt of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary; *provided, however*, that any subsequent issue or transfer of Capital Stock or other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of any such Debt (except to the Company or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Debt by the issuer thereof;
- (d) Debt under Interest Rate Agreements entered into by the Company or a Restricted Subsidiary for the purpose of limiting interest rate risk in the ordinary course of the financial management of the Company or such Restricted Subsidiary as the case may be, and not for speculative purposes; *provided, however*, that the obligations under such agreements are directly related to payment obligations on Debt otherwise permitted by the terms of this covenant;
- (e) Debt under Currency Exchange Protection Agreements entered into by the Company or a Restricted Subsidiary for the purpose of limiting currency exchange rate risks directly related to transactions entered into by the Company or such Restricted Subsidiary, as the case may be, in the ordinary course of business and not for speculative purposes;
- (f) Debt in connection with one or more standby letters of credit, bankers' acceptances or performance bonds issued by the Company or a Restricted Subsidiary in the ordinary course of business or pursuant to workers' compensation claims or self-insurance obligations and, in each case, not in connection with the borrowing of money or the obtaining of advances or credit;
- (g) Debt of the Company or any Restricted Subsidiary outstanding on the Issue Date not otherwise described in clauses (a) through (f) above and listed on a schedule to the Indenture (including, without limitation, the Multi-Borrower Credit Facilities, the Existing Note Guarantees, the Existing Equity Value Certificate Guarantee and the Existing EVC Funding Agreements);
- (h) Debt under the Subsidized Loans, the VAT Discounting Facility and short-term credit facilities, as amended, restated, modified in part from time to time in an aggregate principal amount at any one time outstanding not to exceed €71.0 million.
- (i) Debt of the Company or any Restricted Subsidiary arising from the honoring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Debt is covered within five Business Days;
- (j) Debt of the Company or any Restricted Subsidiary consisting of advance or extended payment terms in the ordinary course of business;
- (k) Debt of the Company or any Restricted Subsidiary arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, or similar obligations, in each case Incurred or assumed in connection with the disposal of any business, assets or Capital Stock of a Subsidiary, other than Guarantees of indebtedness of the Subsidiary disposed of or Incurred or assumed by any Person acquiring all or any portion of such business, assets or Capital Stock for the purpose of financing such acquisition; *provided* that the maximum liability of the Company and its Restricted Subsidiaries in respect of all such Debt shall at no time exceed the gross proceeds, including the Fair Market Value or non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value) actually received by the Company and its Restricted Subsidiaries in connection with such disposal;
- (l) Debt represented by Capital Lease Obligations, mortgage financing or purchase money obligations, in each case, Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the Telecommunications Business in an aggregate principal amount not to exceed €10.0 million at any time outstanding;
- (m) Guarantees by the Company or any Restricted Subsidiary of Debt of the Company or a Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant; *provided, however* that if the Debt being Guaranteed is subordinated in right of payment to the Notes or the Note Guarantees, then such Guarantees shall be subordinated to the same extent as the Debt Guaranteed;

- (n) Subordinated Shareholder Indebtedness;
- (o) Debt of the Company and the Restricted Subsidiaries (other than Debt permitted pursuant to clauses (a) through (n) above) in an aggregate principal amount outstanding at any one time not to exceed € 25.0 million; and
- (p) Permitted Refinancing Debt Incurred in respect of Debt Incurred pursuant to clause (a)(i) and (a)(ii) of the first paragraph of this covenant and clause (a) and (g) of this paragraph.

Notwithstanding anything to the contrary contained in this covenant, the Company shall not, and shall not permit any other Note Guarantor to, nor shall any other Note Guarantor, incur any Debt pursuant to this covenant, other than debt Incurred pursuant to clause (a) (i) or (ii) of the first paragraph of this covenant, if the proceeds thereof are used, directly or indirectly, to Refinance (i) any Subordinated Obligations unless such Debt shall be subordinated to the Notes Proceeds Loans or the applicable Note Guarantee, as the case may be, to at least the same extent as such Subordinated Obligations or (ii) any Senior Subordinated Debt unless such Debt shall be Senior Subordinated Debt or shall be subordinated to the Notes Proceeds Loans and the applicable Note Guarantee, as the case may be.

Limitation on Restricted Payments

Each of the Indentures will provide that the Issuer shall not make, directly or indirectly, any Issuer Restricted Payment; *provided* that, the Issuer may make payments in respect of the Existing Equity Value Certificates; and *provided further*, that the Issuer may pay dividends to ONO Holdings in an aggregate amount not to exceed €75,000 per year or its equivalent for the purpose of permitting the recipient to pay expenses related to the administration of the Issuer or ONO Holdings.

Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, make, directly or indirectly, any Restricted Payment if at the time of, and after giving effect thereto,

- (a) a Default or Event of Default shall have occurred and be continuing,
- (b) the Company could not incur at least €1.00 of additional Debt pursuant to clause (a) of the first paragraph of the covenant described under "—Limitation on Debt" or
- (c) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made since the Issue Date (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed an amount equal to the sum of:
 - (i) 50% of Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the fiscal quarter immediately following the fiscal quarter during which the Issue Date occurs to the end of the most recent fiscal quarter ending at least 45 days prior to date of the Restricted Payment (or in case such Consolidated Net Income will be a deficit, minus 100% of such deficit);
 - (ii) Capital Stock Sale Proceeds (other than that portion of such Capital Stock Sale Proceeds in excess of €20.0 million that has been used pursuant to clause (i) of the definition of Permitted Investment to make a Permitted Investment);
 - (iii) the aggregate Net Cash Proceeds received by the Company or any Restricted Subsidiary from the issuance or sale after the Issue Date of convertible or exchangeable Debt that has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of the Company;
 - (iv) the aggregate cash proceeds received by the Company or any Restricted Subsidiary in connection with the Incurrence of any Subordinated Shareholder Indebtedness after the Issue Date; and
 - (v) an amount equal to the sum of (A) any dividends, repayments of loans or advances or other transfers of Property, in each case to the Company or any Restricted Subsidiary from any Unrestricted Subsidiary, and (B) the portion (proportionate to the Company's equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; *provided, however*, that the foregoing sum shall not exceed the amount of Investments previously made (and treated as a Restricted Payment) by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary.

Notwithstanding the foregoing limitation, the Company may take the following actions:

- (a) pay dividends on its Capital Stock within 60 days of the declaration thereof if, on said declaration date, such dividends could have been paid in compliance with the Indentures; *provided, however*, that such dividend shall be included in the calculation of the amount of Restricted Payments;
- (b) purchase, repurchase, redeem, legally defease, acquire or retire for value Capital Stock of the Company or Subordinated Obligations in exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any such Subsidiary for the benefit of their employees); *provided, however*, that (i) such purchase, repurchase, redemption, legal defeasance, acquisition or retirement shall be excluded in the calculation of the amount of Restricted Payments and (ii) the Capital Stock Sale Proceeds from such exchange or sale shall be excluded from the calculation pursuant to clause (c)(ii) above;
- (c) purchase, repurchase, redeem, legally defease, acquire or retire for value any Subordinated Obligations in exchange for, or out of the proceeds of the substantially concurrent sale of, Permitted Refinancing Debt; *provided, however*, that such purchase, repurchase, redemption, legal defeasance, acquisition or retirement shall be excluded in the calculation of the amount of Restricted Payments;
- (d) make payments in respect of the Existing Equity Value Certificate Guarantee and under the Existing EVC Funding Agreements;
- (e) (A) repurchase, redeem or otherwise acquire or retire for value any Capital Stock of Cableuropa or any Holdco of Cableuropa or any Restricted Subsidiary held by any current or former officer, director or employee of Cableuropa or any Restricted Subsidiary that are issued on the Issue Date or issued to such Persons following the Issue Date pursuant to any share option scheme, compensation plan, incentive scheme or similar arrangement or; (B) the purchase, in the open market, at any time following the Public Equity Offering of Cableuropa or a Holdco of Cableuropa of listed ordinary shares of Cableuropa or a Holdco of Cableuropa to be reserved for Issuance upon exercise of options issued to any current or former officer, director or employee of Cableuropa or a Holdco of Cableuropa or any Restricted Subsidiary pursuant to any share option scheme, compensation plan, incentive scheme or similar arrangement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired, retired or purchased Capital Stock referred to in Clauses (A) and (B) may not exceed €2.0 million in any twelve month period;
- (f) the repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent that such Capital Stock represents a portion of the exercise price of those stock options;
- (g) the repurchase, redemption or other acquisition for value of Capital Stock of Cableuropa or a Holdco of Cableuropa or any Restricted Subsidiary representing fractional shares of such Capital Stock in connection with a share dividend distribution share split, reverse share split, merger, consolidation, amalgamation or other business combination of Cableuropa, such Holdco or such Restricted Subsidiary in each case permitted under the Indentures;
- (h) Following a Public Equity Offering, the payment of dividends on Capital Stock of the Company up to 6% per annum of the net cash proceeds received by Cableuropa in any such Public Equity Offering or any subsequent public offering of such ordinary shares or net cash proceeds of any such Public Equity Offering or subsequent public offering of such Capital Stock by any Holdco of Cableuropa that are contributed in cash to Cableuropa's equity (other than through the issuance of Disqualified Stock) or loaned to Cableuropa in the form of Subordinated Shareholder Indebtedness; *provided* that if such Public Equity Offering was of Capital Stock of a Holdco of Cableuropa, then that proceeds of any such dividends are used to fund an equal dividend on the ordinary shares of such Holdco; *provided, further*, however that at the time of such payment no Default or Event of Default has occurred and is continuing;
- (i) cash payments, advances, loans or expense reimbursements made to GCO to permit GCO to pay general operating expenses (other than management, consulting or similar fees payable by Affiliates of the Issuer), accounting, legal, corporate reporting and administrative expenses incurred in the ordinary course of its business in an amount not to exceed €5.0 million in the aggregate in any fiscal year; and
- (j) any other Restricted Payment, *provided* that the total aggregate amount of Restricted Payments made under this clause (j) does not exceed €7.5 million in the aggregate in any fiscal year; *provided, further, however* that at the time of such payment no Default or Event of Default has occurred and is continuing.

The actions described in clauses (a) and (g) of this paragraph are Restricted Payments that will be permitted to be made in accordance with this paragraph but that reduce the amount that would otherwise be available for Restricted Payments under clause (c) (ii) above.

Limitation on Liens

- (a) Each of the Indentures will provide that the Issuer shall not, directly or indirectly, Incur or suffer to exist, any Lien (other than Permitted Liens) upon any of its Property, whether owned at the Issue Date or thereafter acquired, or any interest therein or any income or profits

therefrom.

- (b) Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, directly or indirectly, incur or suffer to exist, any Lien (other than Permitted Liens or Liens securing Senior Debt) upon any of its Property (including Capital Stock of a Restricted Subsidiary), whether owned at the Issue Date or thereafter acquired, or any interest therein or any income or profits therefrom, unless
 - (i) if such Lien secures Senior Subordinated Debt, the Notes Proceeds Loans and the applicable Note Guarantee are secured on an equal and ratable basis with such Debt; and
 - (ii) if such Lien secures Subordinated Obligations, such Lien shall be subordinated to a Lien securing the Notes Proceeds Loans and the applicable Note Guarantee in the same Property as that securing such Lien to the same extent as such Subordinated Obligations are subordinated to the Notes Proceeds Loans and the applicable Note Guarantee.

Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries.

Each of the Indentures will provide that the Company shall not sell or otherwise dispose of any shares of Capital Stock of a Restricted Subsidiary, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell or otherwise dispose of any shares of its Capital Stock except:

- (a) to the Company or another Restricted Subsidiary;
- (b) the Incurrence of a Lien permitted under the covenant described under "—Limitation on Liens" (solely to the extent such Incurrence constitutes a disposition of the Capital Stock subject to such Lien under applicable law);
- (c) the issuance and sale to a citizen of any jurisdiction of shares of Capital Stock of such Restricted Subsidiary, to the extent required by applicable law of such jurisdiction;
- (d) if, immediately after giving effect to such issuance, sale or other disposition, neither the Company nor any Restricted Subsidiary owns any Capital Stock of such Restricted Subsidiary;
- (e) if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any Investment in such Person remaining after giving effect thereto would have been permitted to be made under the covenant described under "—Limitation on Restricted Payments" if made on that date of such issuance, sale or other disposition (and such Investment shall be deemed to be an Investment for the purposes of such covenant).

Limitation on Sale of Certain Assets

- (a) Each of the Indentures will provide that the Issuer shall not, directly or indirectly, consummate any Asset Sale.
- (b) Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, directly or indirectly, consummate any Asset Sale unless:
 - (i) the Company or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the Property subject to such Asset Sale;
 - (ii) at least 75% of the consideration paid to the Company or such Restricted Subsidiary in connection with such Asset Sale is in the form of cash or cash equivalents or the assumption by the purchaser of liabilities of the Company or any Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes Proceeds Loans and the applicable Note Guarantee) as a result of which the Company and the Restricted Subsidiaries are no longer obligated with respect to such liabilities;
 - (iii) the Company delivers an Officers' Certificate to the Trustee certifying that such Asset Sale complies with the foregoing clauses (i) and (ii); and
 - (iv) no Default or Event of Default shall have occurred and be continuing immediately prior to and after giving effect to such Asset Sale.

The Net Available Cash (or any portion thereof) from Asset Sales shall be applied by the Company or a Restricted Subsidiary, to the extent the Company or such Restricted Subsidiary elects (or is required by the terms of any Debt):

- (a) to repay Senior Debt of the Company or any other Note Guarantor (excluding, in any such case, any Debt owed to the Company or an Affiliate of the Company);
- (b) to invest or reinvest in Additional Assets (including an Investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary that is invested in such Restricted Subsidiary); or
- (c) Any combination of the foregoing.

Any Net Available Cash from an Asset Sale not applied in accordance with the preceding paragraph within 360 days from the date of the receipt of such Net Available Cash or that is not segregated from the general funds of the Company for investment in identified Additional Assets in respect of a project that shall have been commenced, and for which binding contractual commitments have been entered into, prior to the end of such 360-day period and that shall not have been completed or abandoned shall constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds €10.0 million (taking into account income earned on such Excess Proceeds, if any), Cableuropa will be required to make an offer to make prepayments under the Notes Proceeds Loans sufficient to enable the Issuer to purchase Notes pursuant to the Prepayment Offer (as defined below), and the Issuer shall be required to make an offer to purchase (the "Prepayment Offer") the Notes which offer shall be in the amount of the Allocable Excess Proceeds, on a pro rata basis according to principal amount, at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the purchase date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), in accordance with the procedures (including prorating in the event of over-subscription) set forth in the Indentures. To the extent that any portion of the amount of Net Available Cash remains after compliance with the preceding sentence and *provided* that all holders of Notes have been given the opportunity to tender their Notes for purchase in accordance with the Indentures, the Company or such Restricted Subsidiary may use such remaining amount for any general corporate purpose and the amount of Excess Proceeds will be reset to zero.

The term "Allocable Excess Proceeds" will mean the product of (a) the Excess Proceeds and (b) a fraction, the numerator of which is the aggregate principal amount of the Notes outstanding on the date of the Prepayment Offer and the denominator of which is the sum of the aggregate principal amount of the Notes outstanding on the date of the Prepayment Offer and the aggregate principal amount of other Debt of Cableuropa outstanding on the date of the Prepayment Offer that is *pari passu* in right of payment with the Notes Proceeds Loans and subject to terms and conditions in respect of Asset Sales similar in all material respects to the covenant described hereunder and requiring Cableuropa to make an offer to purchase such Debt at substantially the same time as the Prepayment Offer.

Within five Business Days after Cableuropa is obligated to make a Prepayment Offer as described in the preceding paragraph, the Issuer shall send a notice pursuant to the section entitled "—Notices," accompanied by such information regarding the Issuer, the Company and the Restricted Subsidiaries as the Issuer in good faith believes will enable the holders to make an informed decision with respect to such Prepayment Offer. Such notice shall state, among other things, the purchase price and the purchase date, which shall be, subject to any contrary requirements of applicable law, a Business Day no earlier than 30 days nor later than 60 days from the date such notice is given.

The Issuer and each of the Note Guarantors will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes pursuant to the covenant described hereunder. To the extent that the provisions of any securities laws or regulations conflict with provisions of the covenant described hereunder, each of the Issuer and the Note Guarantors will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant described hereunder by virtue thereof.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, directly or indirectly, create or otherwise cause or suffer to exist any consensual restriction on the right or ability of any Restricted Subsidiary (and, in the case of clause (d) below, Cableuropa) to:

- (a) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock, or pay any Debt or other obligation owed, to the Company or any other Restricted Subsidiary;
- (b) make any loans or advances to the Company or any other Restricted Subsidiary;
- (c) transfer any of its Property to the Company or any other Restricted Subsidiary; or

(d) satisfy its obligations under the Notes Proceeds Loans.

The foregoing limitations will not apply:

(a) with respect to clauses (a), (b), (c) and (d), to restrictions:

- (i) in effect or entered into on the Issue Date;
- (ii) relating to Debt of a Restricted Subsidiary and existing at the time it became a Restricted Subsidiary if such restriction was not created in connection with or in anticipation of the transaction or series of transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company;
- (iii) relating to the Senior Bank Facility;
- (iv) under (x) the Indentures, the Note Guarantees or the Notes or (y) any customary encumbrance or restriction that is contained in an agreement or instrument governing or relating to any Indebtedness Incurred; *provided, however*, that the restrictions contained in any such agreement or instrument are no less favorable in any material respect, taken as a whole, to the holders of Notes than the restrictions contained in the Indentures, the Note Guarantees or the Notes;
- (v) that result from the Refinancing of Debt Incurred pursuant to an agreement referred to in clause (a)(i), (ii), (iii) or (iv) (in respect of clause (x) only) above or in clause (b)(i) or (ii) below; *provided, however*, such restriction with respect to such Refinanced Debt is no less favorable in any material respect, taken as a whole, to the holders of Notes than those under the agreement evidencing the Debt so Refinanced;
- (vi) relating to Hedging Obligations, Subsidized Loans or the VAT Discounting Facility; or
- (vii) any customary encumbrance or restriction applicable to a Restricted Subsidiary that is contained in an agreement or instrument governing or relating to Senior Debt, *provided* that the provisions of any such agreement or instrument do not prevent (other than following an event of default on such Senior Debt) the payment of interest and mandatory payment of principal pursuant to the terms of the Indentures and the Notes, but *provided, further* that such agreement or instrument may nevertheless contain customary net worth, leverage, invested capital and other financial covenants, customary covenants regarding the merger of or sale of all or any substantial part of the assets of the Company or any Restricted Subsidiary, customary restrictions on transactions with Affiliates, customary subordination provisions governing future Debt to be Incurred by the Company or any Restricted Subsidiary no less favorable in any material respect, taken as a whole, to the holders of Notes than the subordination provisions applicable to the Note Guarantees, and provisions prohibiting redemptions or repurchases of Notes in the event of a Change of Control; and

(b) with respect to clause (c) of the first paragraph of this covenant only, to restrictions:

- (i) relating to Debt that is permitted to be Incurred and secured without also securing the Notes Proceeds Loans or the applicable Note Guarantee pursuant to the covenants described under "—Limitation on Debt" and "—Limitation on Liens" that limit the right of the debtor to dispose of the Property securing such Debt;
- (ii) encumbering Property at the time such Property was acquired by the Company or any Restricted Subsidiary, so long as such restriction relates solely to the Property so acquired and was not created in connection with or in anticipation of such acquisition;
- (iii) resulting from customary provisions in leases or customary provisions in other agreements that restrict assignment of such agreements or rights thereunder;
- (iv) customary restrictions contained in asset sale agreements limiting the transfer of such Property pending the closing of such sale;
- (v) encumbrances or restrictions existing by reason of customary merger or acquisition agreements for the purchase or acquisition of the Capital Stock or assets of the Company or any of its Subsidiaries by another Person;
- (vi) customary restrictions contained in operating leases for real property and restricting only the transfer of such real property or effective only upon the occurrence and during the continuance of a default in the payment of rent;

- (vii) encumbrances or restrictions arising as a result of applicable law or regulation; or
- (viii) encumbrances or restrictions that may be imposed by governmental licenses, concessions, franchises or permits.

Limitation on Transactions with Affiliates

- (a) Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, directly or indirectly, conduct any business or enter into or suffer to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any Property or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "Affiliate Transaction"), unless:
 - (i) the terms of such Affiliate Transaction are (x) set forth in writing and (y) no less favorable, in any material respect, taken as a whole, to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Company as determined in good faith by any Officer of the Company;
 - (ii) if such Affiliate Transaction involves aggregate payments or value in excess of €10.0 million, the Board of Directors (including a majority of the disinterested members of the Board of Directors) approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with clause (a)(i)(y) of this paragraph as evidenced by a board resolution promptly delivered to the Trustee; and
 - (iii) if such Affiliate Transaction involves aggregate payments or value in excess of €25.0 million, the Company obtains a written opinion from an Independent Appraiser to the effect that the consideration to be paid or received in connection with such Affiliate Transaction is fair, from a financial point of view, to the Company or such Restricted Subsidiary, as the case may be.
- (b) Notwithstanding the foregoing limitation, the following shall not be Affiliate Transactions:
 - (i) any transaction or series of transactions between the Company and one or more Restricted Subsidiaries or between two or more Restricted Subsidiaries in the ordinary course of business;
 - (ii) any transaction or series of transactions between the Parent Guarantor and Cableuropa or between the Parent Guarantor and one or more Restricted Subsidiaries;
 - (iii) any Restricted Payment or Issuer Restricted Payment permitted to be made pursuant to the covenant described under "—Limitation on Restricted Payments" or any Permitted Investment of the Company or the Restricted Subsidiaries;
 - (iv) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors;
 - (v) loans and advances to employees made in the ordinary course of business and consistent with the past practices of the Company or any Restricted Subsidiary, as the case may be; *provided, however*, that such loans and advances do not exceed €1.0 million in the aggregate at any one time outstanding, *provided, however* that the Company or any Restricted Subsidiary may make loans or advances to employees in connection with a Public Equity Offering in amounts not to exceed €3.5 million;
 - (vi) arrangements in existence on the Issue Date (including any construction and equipment purchase contracts and any consultancy agreements) and any renewal thereof; *provided, however*, that any such renewal is on terms no less favorable in any material respect, taken as a whole, than the terms of any such existing agreement;
 - (vii) arrangements relating to the offer and sale of Capital Stock of the Company or any Restricted Subsidiary that the Board of Directors determines in good faith to be customary for such an offer and sale;
 - (viii) any Guarantee or grant of any Lien by the Company or a Restricted Subsidiary in connection with any Debt (other than Subordinated Obligations) permitted pursuant to the covenant described under "—Limitation on Debt";
 - (ix) any payments or other transactions pursuant to a tax sharing agreement between the Company and any other Person with which the Company files a consolidated tax return or with which the Company is part of a consolidated group for tax purposes;

- (x) (A) the provision by Bank of America Corporation and its Affiliates and Banco Santander and its Affiliates of investment banking or commercial banking or similar services to the Company and the Restricted Subsidiaries; and (B) any agreement with Grupo Ferrovial, S.A. and its Affiliates or Isolux WAT S.A. and its Affiliates to construct the telecommunications networks of the Company and the Restricted Subsidiaries, which, in the case of each of (A) and (B), are fair to the Company and the Restricted Subsidiaries, in the reasonable determination of the Board of Directors of the Company or an Officer thereof, or are on terms no less favorable in any material respect, taken as a whole, to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Company as determined in good faith by any Officer of the Company; and
- (xi) any payments or other transactions with respect to the lease or sharing or other use of cable or fiber lines, equipment, transmission capacity, right-of-way or other access rights, service agreements, content provision agreements or any other transactions entered into in the ordinary course of business and related to the Telecommunications Business between the Company or any Restricted Subsidiary and Retecal *provided* (a) such transaction satisfies the requirements of clause (a)(i) of the preceding paragraph and (b) The Board of Directors (including a majority of disinterested directors (which shall include at least two such directors)) approves such transaction and, in its good faith judgment, believes such transaction complies with clause (a)(i)(y) of the preceding paragraph as evidenced by a board resolution promptly delivered to the Trustee.

Limitation on Sale and Leaseback Transactions

Each of the Indentures will provide that the Company shall not, and shall not permit any Restricted Subsidiary to, nor shall any Restricted Subsidiary, enter into any Sale and Leaseback Transaction with respect to any Property unless:

- (a) the Company or such Restricted Subsidiary would be entitled to (i) Incur Debt in an amount equal to the Attributable Debt with respect to such Sale and Leaseback Transaction pursuant to the covenant described under "—Limitation on Debt" and (ii) create a Lien on such Property securing such Attributable Debt without also securing the Notes Proceeds Loans and the applicable Note Guarantee pursuant to the covenant described under "—Limitation on Liens";
- (b) such Sale and Leaseback Transaction is effected in compliance with the covenant described under "—Limitation on Sale of Certain Assets"; and
- (c) the net proceeds received in connection with such Sale and Leaseback Transaction are at least equal to the Fair Market Value of such Property.

Limitation on Layered Debt

Each of the Indentures will provide that Cableuropa shall not, and shall not permit any other Guarantor to, nor shall any other Subsidiary Guarantor, incur, create, issue, assume, Guarantee or otherwise become liable for any Debt that is both subordinate or junior in right of payment to any Senior Debt of Cableuropa or such Subsidiary Guarantor and senior in any respect in right of payment to any Senior Subordinated Debt of Cableuropa or such Subsidiary Guarantor or any other Debt of Cableuropa or such Subsidiary Guarantor ranking equally with Senior Subordinated Debt of Cableuropa or such Subsidiary Guarantor.

Limitation on Notarization Under Spanish Law

Each of the Indentures will provide that, until September 1, 2004, the Company shall not, and shall not permit any other Guarantor to, nor shall any other Note Guarantor, Notarize any Debt or other obligation other than Senior Debt.

Designation of Restricted and Unrestricted Subsidiaries

Unless so designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Company will be classified as a Restricted Subsidiary. Each of the Indentures will provide that the Board of Directors may designate any Subsidiary of the Company, including any newly acquired or newly formed subsidiary, to be an Unrestricted Subsidiary if:

- (a) no Event of Default shall have occurred or be continuing at the time of or after giving effect to such designation;
- (b) the Subsidiary to be so designated does not own any Capital Stock or Debt of, or own or hold any Lien on any Property of, the Company or any Restricted Subsidiary; and
- (c) either (i) the Subsidiary to be so designated has total assets of €60,000 or less or (ii) such designation is effective immediately upon such

entity becoming a Subsidiary of the Company.

Except as provided in the second sentence of the immediately preceding paragraph, no Restricted Subsidiary may be redesignated as an Unrestricted Subsidiary. Neither the Company nor any Restricted Subsidiary shall at any time be directly or indirectly liable for any Debt that provides that the holder thereof may (with the passage of time or notice or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its Stated Maturity upon the occurrence of a default with respect to any Debt, Lien or other obligation of any Unrestricted Subsidiary (including any right to take enforcement action against such Unrestricted Subsidiary). Upon designation of a Restricted Subsidiary as an Unrestricted Subsidiary in compliance with this covenant, such Restricted Subsidiary shall, by execution and delivery of a supplemental indenture in form satisfactory to the Trustee, be released from any Note Guarantee previously made by such Restricted Subsidiary.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary if, immediately after giving pro forma effect to such designation:

- (a) the Company could Incur €1.00 of additional Debt pursuant to clause (a) of the first paragraph of the covenant described under "— Limitation on Debt";
- (b) no Default or Event of Default shall have occurred and be continuing or would result therefrom;
- (c) such Unrestricted Subsidiary is a subsidiary of the Company; and
- (d) such Unrestricted Subsidiary executes and delivers to the Trustee a Note Guarantee at the time such Unrestricted Subsidiary becomes a Restricted Subsidiary.

Any such designation or redesignation by the Board of Directors will be evidenced to the Trustee by filing with the Trustee a board resolution giving effect to such designation or redesignation and an Officers' Certificate of the Company (a) certifying that such designation or redesignation complies with the foregoing provisions and (b) giving the effective date of such designation or redesignation, such filing with the Trustee to occur within 45 days after the end of the fiscal quarter of the Company in which such designation or redesignation is made (or, in the case of a designation or redesignation made during the last fiscal quarter of the Company's fiscal year, within 90 days after the end of such fiscal year).

Limitation on the Company's Business

Each of the Indentures will provide that the Company shall not, and the Company and the Restricted Subsidiaries as a group shall not, engage in any business other than a Telecommunications Business.

Limitation on Issuer Activities

Each of the Indentures will provide that the Issuer will not engage in any business activity or undertake any other activity, except any activity:

- (a) relating to the offering, sale or issuance of the Notes or the Incurrence of Permitted Debt of the Issuer (including the lending of the proceeds of such sale of Notes or Permitted Debt of the Issuer to the Company and the Restricted Subsidiaries);
- (b) undertaken with the purpose of, and directly related to, fulfilling its obligations under the Existing Notes, the Notes, the Indentures, the Existing Notes Indentures, the agreements relating to the Existing Equity Value Certificates or such Permitted Debt, including the Incurrence of Permitted Liens of the Issuer and the making of Permitted Investments of the Issuer; or
- (c) directly related to the establishment and maintenance of the Issuer's corporate existence.

All of the proceeds of the offering will be lent to Cableuropa and the other Subsidiary Guarantors by the Issuer pursuant to the Notes Proceeds Loans. The Issuer shall not:

- (a) Incur any Debt other than the Notes or Permitted Debt of the Issuer;
- (b) issue any Capital Stock (other than to ONO Holdings, the Company or Retco);
- (c) consummate any Asset Sale; or

- (d) take any action which would cause it to no longer satisfy the requirements of its exemption from the provisions of the Investment Company Act of 1940, as amended.

Whenever the Issuer receives a payment or prepayment under the Notes Proceeds Loans, it shall use the funds received solely to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Indentures (including any premium paid to holders of the Notes), except as otherwise provided pursuant to the subordination and other provisions of the Notes Proceeds Loans and the Indentures. The Issuer's Articles of Association and Memorandum of Association prohibit the transfer of its shares to any Person other than ONO Holdings, the Company or Retco.

Future Note Guarantors

Each of the Indentures will provide that the Company shall cause each Person that becomes a Restricted Subsidiary following the Issue Date to execute and deliver to the Trustee a Note Guarantee at the time such Person becomes a Restricted Subsidiary. The Company, however, will not be obligated to cause any Restricted Subsidiary to become a Note Guarantor if the provision by such Restricted Subsidiary of a Note Guarantee would result in any violation of applicable law that cannot be avoided or otherwise prevented through measures reasonably available to the Company (including any "whitewash" or similar procedures that would be required in order to enable such Note Guarantee to be provided in accordance with applicable law).

Use of Proceeds by the Issuer

Each of the Indentures will provide that the gross proceeds to the Issuer from the offering of the Notes shall be lent by the Issuer to Cableuropa and the other Subsidiary Guarantors pursuant to the Notes Proceeds Loans.

Restriction on Transfer of Assets

Each of the Indentures will provide that the Company and any Restricted Subsidiary that is a Note Guarantor shall not sell, convey, transfer or otherwise dispose of its assets or property to any Restricted Subsidiary that is not a Note Guarantor.

Conversion of GCO Loan and Participative Loans into Common Stock of Cableuropa

Each of the Indentures will provide that within one month of the Issue Date, Cableuropa will take all necessary actions and make all necessary submissions, including submissions to the Mercantile Registry, to convert the GCO Loan and the Participative Loans into common stock of Cableuropa.

Payments for Consent

Each of the Indentures will provide that neither the Issuer nor any Restricted Subsidiary will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of an Indenture or the Notes unless such consideration is offered to be paid or is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports to Holders

Each of the Indentures will provide that, so long as any Notes are outstanding, each of the Company and the Issuer will furnish to the Trustee (who, at the Company's or the Issuer's expense, as the case may be, will furnish by mail to holders of the Notes):

- (a) within 120 days following the end of each fiscal year, information including "Selected Historical Financial Data," "Management's Discussion and Analysis of Results of Operations" and "Business" sections with scope and content similar to the corresponding sections of this offering memorandum (after taking into consideration any changes to the business and operations of the Company or the Issuer after the Issue Date), information regarding the Company's and the Issuer's share capital, constitutional documents and any material contracts to which the Company, the Issuer or the Restricted Subsidiaries are party other than contracts entered into in the ordinary course of business, consolidated audited income statements, balance sheets and cash flow statements and the related notes thereof for the Company and the Issuer for the two most recent fiscal years in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the Commission, together with an audit report thereon by the Issuer's independent auditors;
- (b) within 60 days following the end of the fiscal quarters ended June 30, 2004 and September 30, 2004 and of the first three fiscal quarters

in each fiscal year thereafter, quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and condensed footnote disclosure; for the Company and the Restricted Subsidiaries on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the Commission, together with a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section for such quarterly period;

- (c) promptly from time to time after the occurrence of a material acquisition or disposition that would constitute a Significant Subsidiary (as defined in Regulation S-X of the Commission), financial statements of the acquired business and a pro forma consolidated balance sheet and statement of operations of the Company and the Restricted Subsidiaries giving effect to the acquisition or disposition to the extent practicable utilizing available information, (which need not be required to contain any U.S. GAAP information or otherwise comply with Regulation S-X of the Commission); and
- (d) promptly from time to time after the occurrence of an event required to be reported therein, such other reports containing substantially the same information required to be contained in Form 6-K (or any successor form) of the Commission.

Each of the Company and the Issuer shall be deemed to satisfy the foregoing obligations so long as it furnishes the foregoing information in compliance with the corresponding obligation in the Existing Notes Indentures.

In addition, so long as the Notes remain outstanding and during any period during which Cableuropa and the Issuer are not subject to Section 13 or 15(d) of the Exchange Act or exempt therefrom pursuant to each of Cableuropa and the Issuer will furnish to the holders of the Notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely transferable under the Exchange Act by Persons who are not "affiliates" under the Securities Act.

Each of the Issuer and the Company will also make available copies of all reports furnished to the Trustee within 15 days after the Issuer or the Company, as the case may be, furnishes such reports to the Trustee: (a) on the website of the Company, as the case may be; (b) to the newswire service of Bloomberg, or, if Bloomberg does not then operate, any similar agency; and (c) if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, at the specified office of the paying agent in Luxembourg.

Merger, Consolidation and Sale of Property

Each of the Indentures will provide that the Issuer shall not merge, consolidate or amalgamate with or into any other Person or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all its Property in any one transaction or series of related transactions.

Except with respect to an enforcement sale as described under "—Subordination of the Subsidiary Guarantees Upon a Repayment Event—Release of the Subsidiary Guarantees," the Company and each of the other Note Guarantors shall not merge, consolidate or amalgamate with or into any other Person (other than a merger of a Restricted Subsidiary into the Company or such other Note Guarantor) or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all its Property in any one transaction or series of related transactions unless:

- (a) the Company or such other Note Guarantor shall be the surviving Person (the "Surviving Person") or the Surviving Person (if other than the Company or such other Note Guarantor, as applicable) formed by such merger, consolidation or amalgamation or to which such sale, transfer, assignment, lease, conveyance or disposition is made shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia or a member state of the European Union on the Issue Date;
- (b) the Surviving Person (if other than the Company or such other Note Guarantor, as applicable) expressly assumes, by supplemental indenture in form reasonably satisfactory to the Trustee, executed and delivered to the Trustee by such Surviving Person, the due and punctual payment of the principal of, and premium, if any, and interest on the Notes Proceeds Loans, and the due and punctual performance and observance of all the covenants and conditions of the Indenture to be performed by the Company and such other Note Guarantor, as applicable, and the due and punctual performance of all obligations of the Company or such other Note Guarantor, as applicable, under its respective Note Guarantee;
- (c) in the case of a sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all the Property of the Company or such other Note Guarantor, as applicable, such Property shall have been transferred as an entirety or substantially as an entirety to one Person, which is the Surviving Person;
- (d) immediately before and after giving effect to such transaction or series of related transactions on a pro forma basis, no Default or Event of Default will have occurred and be continuing;

- (e) Except with respect to the merger, consolidation or amalgamation with or into Retecal, or of Retecal into or with any Note Guarantor, immediately after giving effect to such transaction or series of related transactions on a pro forma basis the Surviving Person would be able to incur €1.00 of additional Debt pursuant to clause (a) of the first paragraph of the covenant described under "—Limitation on Debt";
- (f) the Company shall deliver, or cause to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an Officers' Certificate and an Opinion of Counsel, each stating that such transaction and the supplemental indenture and such Note Guarantee, if any, in respect thereto comply with this covenant and that all conditions precedent herein provided for relating to such transaction have been satisfied; and
- (g) such transaction would not result in the revocation of any Material License which is not replaced, substituted, reinstated or reissued to the holder of such Material License or to the Surviving Person (if other than the Company or another Note Guarantor).

Except with respect to an enforcement sale as described under "—Subordination of the Subsidiary Guarantees Upon a Repayment Event—Release of the Subsidiary Guarantees," the Surviving Person (other than the Company) shall succeed to, and be substituted for, and may exercise every right and power of the Company under the Indentures, the Notes Proceeds Loans and their respective Note Guarantees (or of such other Note Guarantor under the Indentures, the Notes Proceeds Loans and their respective Note Guarantees, as the case may be), but the predecessor company in the case of (a) a sale, transfer, assignment, conveyance or other disposition (unless such sale, transfer, assignment, conveyance or other disposition is of all the assets of the Company (or such other Note Guarantor) as an entirety or substantially as an entirety) or (b) a lease, shall not be released from any of the obligations or covenants under the Indentures, the Notes Proceeds Loans and the applicable Note Guarantee.

Events of Default

Each of the Indentures will provide that each of the following will be an "Event of Default" under the Indentures:

- (a) default for 30 days in the payment when due of any interest or any Additional Amounts on any Note;
- (b) default in the payment of the principal of or premium, if any, on any Note at its Maturity;
- (c) failure to comply with the covenant described under "—Certain Covenants—Merger, Consolidation, and Sale of Property";
- (d) failure to comply with any other covenant or agreement in the Notes or in the Indentures (other than as specified in clause (a), (b) or (c) above) and such failure continues for a period of 30 days or more after written notice is given to the Issuer and the Company as provided below;
- (e) a default under any Debt by the Issuer, the Company or any Restricted Subsidiary that results in acceleration of the maturity of such Debt, or failure to pay any such Debt at maturity, in an aggregate amount greater than €15.0 million or its foreign currency equivalent at the time (the "cross acceleration provisions");
- (f) any judgment or judgments for the payment of money in an aggregate amount in excess of €15.0 million (or its foreign currency equivalent at the time) that shall be rendered against the Issuer, the Company or any Restricted Subsidiary and that shall not be waived, satisfied or discharged for any period of 30 consecutive days during which a stay of enforcement shall not be in effect (the "judgment default provisions");
- (g) certain events involving bankruptcy, insolvency or reorganization of the Issuer, the Company or any Restricted Subsidiary (the "bankruptcy provisions");
- (h) any Note Guarantee ceases to be, or shall be asserted in writing by any Note Guarantor, or any Person acting on behalf of any Note Guarantor, not to be in full force and effect or enforceable in accordance with its terms (other than in accordance with the terms of the Indentures);
- (i) the Notes Proceeds Loans cease to be in full force and effect or the Notes Proceeds Loans are declared null and void or unenforceable or the Notes Proceeds Loans are found to be invalid or the Company denies its liability under the Notes Proceeds Loans or payments under the Notes Proceeds Loans become subject to any Lien;
- (j) an event of default under, or modification which is adverse to the Issuer or the holders of the Notes or the Notes Proceeds Loans; and

- (k) the revocation of a Material License which is not replaced, substituted, reinstated or reissued to (i) the holder of such Material License, (ii) another entity which is a Restricted Subsidiary of the Company or (iii) the Surviving Person (other than the Company or another Note Guarantor) in connection with any transaction permitted by the covenant described under "—Certain Covenants—Merger, Consolidation and Sale of Property."

A Default under clause (f) is not an Event of Default under an Indenture until the relevant Trustee or the holders of not less than 25% in aggregate principal amount of the relevant Notes then outstanding notify the Company of the Default and the Company does not cure (or cause the Restricted Subsidiaries to cure) such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

Each of the Issuer and the Company shall deliver to each Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any event that with the giving of notice and the lapse of time would become an Event of Default, its status and what action the Company is taking or proposes to take with respect thereto.

Each of the Indentures will provide that if an Event of Default with respect to the relevant Notes (other than an Event of Default resulting from certain events involving bankruptcy, insolvency or reorganization with respect to the Company) shall have occurred and be continuing, the relevant Trustee or the registered holders of not less than 25% in aggregate principal amount of the relevant Notes then outstanding may declare to be immediately due and payable the principal amount of all the relevant Notes then outstanding and all amounts outstanding under the relevant Notes Proceeds Loans, in each case plus accrued but unpaid interest to the date of acceleration. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization with respect to the Company shall occur, such amount with respect to all the Notes and the Notes Proceeds Loans shall be due and payable immediately without any declaration or other act on the part of the Trustee or the holders of the Notes. Whenever amounts are due and payable under an Indenture, the same amounts due to the Issuer under the relevant Notes Proceeds Loans will be due and payable. After any such acceleration, but before a judgment or decree based on acceleration is obtained by the relevant Trustee, the holders of a majority in aggregate principal amount of the Notes then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the non-payment of accelerated principal, premium or interest, have been cured or waived as provided in the relevant Indenture. Upon any such rescission and annulment of any such declaration and its consequences with respect to the Notes, the declaration and consequences under the Notes Proceeds Loans shall be rescinded.

Subject to the provisions of the relevant Indenture relating to the duties of the relevant Trustee, in case an Event of Default shall occur and be continuing, the relevant Trustee will be under no obligation to exercise any of its rights or powers under the relevant Indenture at the request or direction of any of the holders of the relevant Notes, unless such holders shall have offered to such Trustee reasonable indemnity. Subject to such provisions for the indemnification of the relevant Trustee, the holders of a majority in aggregate principal amount of the relevant Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the relevant Trustee or exercising any trust or power conferred on such Trustee with respect to the relevant Notes.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding payment of the premium that the Issuer would have had to pay if the Issuer then had elected to redeem the Notes pursuant to the optional redemption provisions of the relevant Indenture, an equivalent premium shall also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Notes. If an Event of Default occurs during any time that the Notes are outstanding, by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Issuer with the intention of avoiding the prohibition on redemption of the Notes, then the premium specified in the relevant Indenture that would have been payable upon redemption at the time the Event of Default occurs shall also become immediately due and payable to the extent permitted by law upon the acceleration of the Notes.

At any time after a declaration of acceleration under the relevant Indenture, but before a judgment or decree for payment of the money due has been obtained by the relevant Trustee, the holders of a majority in aggregate principal amount of the outstanding Notes, by written notice to the Issuer and the relevant Trustee, may rescind such declaration and its consequences if:

- (a) the Issuer has paid or deposited with the Trustee a sum sufficient to pay:
 - (i) all overdue interest and Additional Amounts on all Notes then outstanding;
 - (ii) all unpaid principal of and premium, if any, on any outstanding Notes that has become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes;
 - (iii) to the extent that payment of such interest is lawful, interest upon overdue interest and overdue principal at the rate borne by the Notes; and

- (iv) all sums paid or advanced by the Trustee under the relevant Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;
- (b) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and
- (c) all Events of Default, other than the non-payment of amounts of principal of, premium, if any, and any Additional Amounts and interest on the Notes that has become due solely by such declaration of acceleration, have been cured or waived.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Each of the Indentures will provide that the holders of not less than a majority in aggregate principal amount of the outstanding Notes may, on behalf of the holders of all the relevant Notes, waive any past defaults under the relevant Indenture, except a default:

- (a) in the payment of the principal of, premium, if any, and Additional Amounts or interest on any Note; or
- (b) in respect of a covenant or provision which under the relevant Indenture cannot be modified or amended without the consent of the holder of each Note outstanding.

No holder of any of the Notes has any right to institute any proceedings with respect to the relevant Indenture or any remedy thereunder unless, subject to the provisions of the Indentures described under "—Subordination of the Subsidiary Guarantees Upon a Repayment Event," the holders of at least 25% in aggregate principal amount of the relevant Notes then outstanding have made a written request and offered reasonable indemnity to the relevant Trustee to institute such proceeding as Trustee under the Notes and the relevant Indenture, such Trustee has failed to institute such proceeding within 30 days after receipt of such notice and such Trustee within such 30-day period has not received directions inconsistent with such written request by holders of a majority in aggregate principal amount of the outstanding Notes. Such limitations do not, however, apply to a suit instituted by a holder of a Note for the enforcement of the payment of the principal of, premium, if any, and Additional Amounts or interest on such Note on or after the respective due dates expressed in such Note.

If a Default or an Event of Default occurs and is continuing and is known to the relevant Trustee, such Trustee will mail to each holder of the Notes notice of the Default or Event of Default within 15 Business Days after its occurrence. Except in the case of a Default or an Event of Default in payment of principal of, premium, if any, Additional Amounts or interest on any Notes, the relevant Trustee may withhold the notice to the holders of such Notes if a committee of its trust officers in good faith determines that withholding the notice is in the interests of the holders of the Notes.

Each of the Indentures will also provide that the Issuer will be required to furnish to the Trustees annual statements as to the performance of the Issuer and the Restricted Subsidiaries under the Indentures and as to any default in such performance.

Amendments, Supplements and Waivers

Each of the Indentures will provide, that subject to certain exceptions, the Indentures may be amended or supplemented with the consent of the Issuer, the Note Guarantors and the holders of a majority in aggregate principal amount of the outstanding Notes (including consents obtained in connection with a tender offer or exchange offer for the Notes) and any existing Default or compliance with any provisions may also be waived (except a default in the payment of principal, premium or interest and certain covenants and provisions of the Indentures which cannot be amended without the consent of each holder of an outstanding Note) with the consent of the holders of at least a majority in aggregate principal amount of the outstanding Notes. However, without the consent of each holder of an outstanding Note, no amendment or supplement may:

- (a) reduce the amount of Notes whose holders must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on any Note;
- (c) reduce the principal of or extend the Stated Maturity of any Note;
- (d) make any Note payable in money other than that stated in the Note;
- (e) impair the right of any holder of the Notes to receive payment of principal of and interest on such holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Notes or any Note Guarantee;
- (f) release any security interest that may have been granted in favor of the holders of the Notes other than pursuant to the terms of such security interest;

- (g) reduce the amount payable upon the redemption of any Note or change the time at which any Note may be redeemed, as described under "—Optional Redemption";
- (h) reduce the amount payable upon a Change of Control or, at any time after a Change of Control has occurred, change the time at which the Change of Control Offer relating thereto must be made or at which the Notes must be repurchased pursuant to such Change of Control Offer;
- (i) at any time after the Company is obligated to make a Prepayment Offer with the Excess Proceeds from Asset Sales, change the time at which such Prepayment Offer must be made or at which the Notes must be repurchased pursuant thereto;
- (j) amend or modify the provisions described under "—Additional Amounts";
- (k) make any change to the subordination provisions of the Indentures or the Notes Proceeds Loans that would adversely affect the holders of the Notes;
- (l) make any change in any Note Guarantee that would adversely affect the holders of the Notes; or
- (m) release Cableuropa and the other Subsidiary Guarantors from any of its obligations under the Notes Proceeds Loans otherwise than in accordance with the terms of the Notes Proceeds Loans.

Without the consent of any holder of the Notes, the Issuer, the Note Guarantors and the Trustee may amend or supplement the Indentures to cure any ambiguity, omission, defect or inconsistency, to provide for the assumption by a successor corporation of the obligations of the Issuer or the Note Guarantors under the Indentures, to add additional Note Guarantees with respect to the Notes or to release Note Guarantors from Note Guarantees as provided by the terms of the Indentures, to secure the Notes, to add to the covenants of the Issuer or the Note Guarantors for the benefit of the holders of the Notes, or to surrender any right or power conferred upon the Issuer, to make any change that does not adversely affect the rights of any holder of the Notes, or to make any change to the subordination provisions of the Indentures that would limit or terminate the benefits available to any holder of Senior Debt under such provisions (subject to the following paragraph).

No amendment may be made to the subordination provisions of the Indentures, or the Notes Proceeds Loans without the consent of the lenders under the Senior Bank Facility (or their Representative) while the Senior Bank Facility is outstanding, and no such amendment may be made that adversely affects the rights of any other holder of Senior Debt then outstanding unless the holders of such Senior Debt (or their Representative) consent to such change (to the extent such consent is required pursuant to the terms of the Senior Debt). The consent of the holders of the Notes is not necessary under the Indentures to approve the particular form of any proposed amendment. It is sufficient if such consent of the holders of the Notes approves the substance of the proposed amendment. After an amendment under the Indentures becomes effective, the Issuer is required to send a notice briefly describing such amendment pursuant to the section entitled "—Notices." However, the failure to give such notice to all holders of the Notes, or any defect therein, will not impair or affect the validity of the amendment.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Issuer, the Company or the other Note Guarantors, as such, shall have any liability for any obligations of the Issuer or the Company or the other Note Guarantors under the Notes, the Note Guarantees or the Indentures or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of the Notes by accepting a Note waives and releases all such liability, to the extent permitted by applicable law. The waiver and release are part of the consideration for issuance of the Notes and the Note Guarantees. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws, and it is the view of the Commission that such a waiver is against public policy.

Unclaimed Money, Prescription

If money deposited with the Trustee or any paying agent for the payment of principal of, premium, if any, or interest on, the Notes remains unclaimed for two years, the Trustee and such paying agent shall return the money to the Issuer at its written request. After that, holders of Notes entitled to the money must look to the Issuer for payment unless applicable abandoned property law designates another person and all liability of the Trustee and such paying agent shall cease. Other than as set forth in this paragraph, the Indentures do not provide for any prescription periods for the payment of principal of, premium, if any, or interest on, the Notes.

Legal Defeasance or Covenant Defeasance of Indentures

Each of the Indentures will provide that the Issuer may, at its option and at any time prior to the Stated Maturity of the Notes, elect to

have the obligations of the Issuer and any Note Guarantors discharged with respect to the outstanding Notes ("Legal Defeasance"). Legal Defeasance means that the Issuer will be deemed to have paid and discharged the entire Debt represented by the outstanding Notes except as to:

- (a) the rights of holders of outstanding Notes to receive payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due from the trust referred to below;
- (b) the Issuer's obligations to issue temporary Notes, register, transfer or exchange any Notes, replace mutilated, destroyed, lost or stolen Notes, maintain an office or agency for payments in respect of the Notes and segregate and hold such payments in trust;
- (c) the rights, powers, trusts, duties and immunities of the Trustee and the obligations of the Issuer and any Note Guarantors in connection therewith; and
- (d) the Legal Defeasance provisions of the relevant Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and any Note Guarantors released with respect to certain covenants set forth in the relevant Indenture ("Covenant Defeasance") and thereafter any omission to comply with such covenants will not constitute a Default or an Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events described under "Events of Default" will no longer constitute an Event of Default with respect to the Notes. These events do not include events relating to non-payment, bankruptcy, insolvency, receivership and reorganization. The Issuer may exercise its Legal Defeasance option regardless of whether it has previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (a) the Issuer, or the Company, as the case may be, must irrevocably deposit or cause to be deposited in trust with the relevant Trustee, for the benefit of the holders of the Notes, cash in euro, European Government Obligations, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of an internationally recognized firm of independent certified public accountants, to pay and discharge the principal of, premium, if any, and interest, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer, or the Company, as the case may be, must (i) specify whether the Notes are being defeased to maturity or to a particular redemption date and (ii) if applicable, have delivered to the relevant Trustee an irrevocable notice to redeem all of the outstanding Notes of such principal, premium, if any, or interest;
- (b) in the case of Legal Defeasance, the Issuer, or the Company, as the case may be, must have delivered to the relevant Trustee an opinion of counsel reasonably acceptable to the relevant Trustee stating that (x) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (y) since the date of the relevant Indenture, there has been a change in applicable U.S. federal income tax law, in either case to the effect that (and based thereon such opinion shall confirm that) the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (c) in the case of Legal Defeasance, the Issuer, or the Company, as the case may be, delivers to the Trustee an opinion of counsel in each of the United Kingdom, the Kingdom of Spain and any other jurisdiction in which the Issuer or the Company is conducting business in a manner which causes the holders of the Notes to be liable for taxes on payments under the Notes for which they would not have been so liable but for such conduct of business in such other jurisdiction, or, in the case of any successor to the Issuer or the Company, the jurisdiction in which such successor is organized (each a "relevant jurisdiction") to the effect that holders of the Notes will not recognize income, gain or loss in the relevant jurisdiction as a result of such Legal Defeasance and will be subject to taxes in the relevant jurisdiction (including withholding taxes) on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (d) in the case of Covenant Defeasance, the Issuer must have delivered to the relevant Trustee an opinion of counsel reasonably acceptable to the relevant Trustee to the effect that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (e) in the case of Covenant Defeasance, the Issuer, or the Company, as the case may be, delivers to the Trustee an opinion of counsel in each of the United Kingdom, the Kingdom of Spain and any other jurisdiction in which the Issuer or the Company is conducting business in a manner which causes the holders of the Notes to be liable for taxes on payments under the Notes for which they would not have been so liable but for such conduct of business in such other jurisdiction, or, in the case of any successor to the Issuer or the Company, the jurisdiction in which such successor is organized (each a "relevant jurisdiction") to the effect that holders of the Notes will not recognize

income, gain or loss in the relevant jurisdiction as a result of such Covenant Defeasance and will be subject to taxes in the relevant jurisdiction (including withholding taxes) on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

- (f) no Default or Event of Default will have occurred and be continuing (i) on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) or (ii) insofar as bankruptcy or insolvency events described in clause (g) of "—Events of Default" above is concerned, at any time during the period ending on the 185th day after the date of such deposit;
- (g) such Legal Defeasance or Covenant Defeasance shall not cause the relevant Trustee for the Notes to have a conflicting interest as defined in the relevant Indenture with respect to any of the Issuer's securities;
- (h) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), any material agreement or instrument to which the Issuer or any Restricted Subsidiary is a party or by which the Issuer or any Restricted Subsidiary is bound;
- (i) such defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the U.S. Investment Company Act of 1940 unless such trust shall be registered under such act or exempt from registration thereunder;
- (j) the Issuer must have delivered to the Trustee an opinion of independent counsel in the country of the Issuer's incorporation to the effect that after the 185th day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and an opinion of independent counsel reasonably acceptable to the relevant Trustee that the relevant Trustee shall have a perfected security interest in such trust funds for the ratable benefit of the holders of the Notes;
- (k) the Issuer must have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the holders of the Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or other creditors or removing assets beyond the reach of the relevant creditors or increasing debts of the Issuer to the detriment of the relevant creditors;
- (l) no event or condition shall exist that would prevent the Issuer from making payments of the principal of, premium, if any, and interest on the Notes on the date of such deposit or at any time during the period ending on the 185th day after the date of such deposit; and
- (m) the Issuer must have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that all conditions precedent provided for relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of, premium, if any, and interest on the Notes when due because of any acceleration occurring after an Event of Default, then the Issuer and the Note Guarantors will remain liable for such payments.

Satisfaction and Discharge

Each of the Indentures will provide that such Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes as expressly provided for in the relevant Indenture) when:

- (a) the Issuer has irrevocably deposited or caused to be deposited with the Trustee as funds in trust for such purpose an amount in euro or European Government Obligations sufficient to pay and discharge the entire Debt on such Notes that have not, prior to such time, been delivered to the Trustee for cancellation, for principal of, premium, if any, and any Additional Amounts and accrued and unpaid interest on the Notes to the date of such deposit (in the case of Notes which have become due and payable) or to the Stated Maturity or redemption date, as the case may be and the Issuer has delivered irrevocable instructions to the Trustee under the relevant Indenture to apply the deposited money toward the payment of Notes at Maturity or on the redemption date, as the case may be and either:
 - (i) all the Notes that have been authenticated and delivered (other than destroyed, lost or stolen Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust as provided for in the relevant Indenture) have been delivered to the relevant Trustee for cancellation; or

- (ii) all Notes that have not been delivered to the relevant Trustee for cancellation (x) have become due and payable (by reason of the mailing of a notice of redemption or otherwise), (y) will become due and payable at Stated Maturity within one year or (z) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the Issuer's name and at the Issuer's expense;
- (b) the Issuer has paid or caused to be paid all sums payable by the Issuer under the relevant Indenture; and
- (c) the Issuer has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that:
 - (i) all conditions precedent provided in the relevant Indenture relating to the satisfaction and discharge of such Indenture have been satisfied; and
 - (ii) such satisfaction and discharge will not result in a breach or violation of, or constitute a default under, the relevant Indenture or any other agreement or instrument to which the Issuer or any Subsidiary is a party or by which the Issuer or any Subsidiary is bound.

Notices

Each of the Indentures will provide that Notices regarding the Notes will be:

- (a) (i) published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and in New York (which is expected to be *The Wall Street Journal*) (ii) made available to the newswire service of Bloomberg or, if Bloomberg does not then operate, any similar agency and (iii) if at the time of such notice the Notes are listed on the Luxembourg Stock Exchange and the rules and regulations of the Luxembourg Stock Exchange so require, in the *Luxemburger Wort* (or another leading newspaper having a general circulation in Luxembourg); and
- (b) in the case of certificated Notes, mailed to holders of such Notes by first-class mail at their respective addresses as they appear on the registration books of the registrar.

Notices given by first-class mail will be deemed given five calendar days after mailing and notices given by publication will be deemed given on the first date on which publication is made.

If and so long as the Notes are listed on any other securities exchange, notices will also be given in accordance with any applicable requirements of such securities exchange. If and so long as any Notes are represented by one or more Global Notes and ownership of Book-Entry Interests therein are shown on the records of Euroclear, Clearstream Banking or any successor clearing agency appointed by the Book-Entry Depository at the request of the Issuer, notices will also be delivered to each such clearing agency for communication to the owners of such Book-Entry Interests.

The Trustee

Each Indenture, directly or by reference, contains limitations on the rights of the relevant Trustee under such Indenture in the event such Trustee becomes a creditor of the Issuer or any Guarantor. These include limitations on such Trustee's rights to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise.

Each Indenture also contains provisions for the indemnification of the relevant Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

Governing Law

The Indentures and the Notes will be governed by and construed in accordance with the laws of New York.

Consent to Jurisdiction and Service of Process

The Indentures will provide that each of the Issuer and the Note Guarantors will irrevocably appoint CT Corporation Systems or any other person performing similar functions as its agent for service of process in any suit, action or proceeding with respect to the Indentures or the Notes brought in any federal or state court located in New York City and that each of the parties submit to the jurisdiction thereof. If for any reason CT Corporation Systems is unable to serve in such capacity, the Issuer and each of the Note Guarantors shall appoint another agent reasonably satisfactory to the Trustee.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indentures. Reference is made to the Indentures for other capitalized terms used herein for which no definition is provided.

"Acquired Debt" means, with respect to any specified Person, Debt of any other Person (the "Acquired Person") existing at the time such Acquired Person merged with or into or became a Subsidiary of such specified Person, including Debt Incurred in connection with, or in contemplation of, such Acquired Person merging with or into or becoming a Subsidiary of such specified Person.

"Acquired Person" has the meaning specified in the definition of "Acquired Debt."

"Additional Assets" means (a) any Property (other than cash, cash equivalents and securities) to be used in a Telecommunications Business; or (b) Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary from any Person; *provided, however*, that, in the case of clause (b), such Restricted Subsidiary is engaged in a Telecommunications Business.

"Affiliate" of any specified Person means (a) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person or (b) any other Person who is a director or officer of:

- (i) such specified Person;
- (ii) any Subsidiary of such specified Person; or
- (iii) any Person described in clause (a) above.

For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of the covenants described under "—Certain Covenants—Limitation on Transactions with Affiliates" and "—Certain Covenants—Limitation on Sale of Certain Assets" and the definition of "Additional Assets" only, "Affiliate" shall also mean any beneficial owner of shares representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis) of the Company or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"Annualized Pro Forma EBITDA" means, with respect to any Person, such Person's Pro Forma EBITDA for the latest fiscal quarter multiplied by four.

"Applicable Premium" means, with respect to any Fixed Rate Note on any redemption date, the greater of:

- (i) 1.0% of the principal amount of such Fixed Rate Note; and
- (ii) the excess of:
 - (A) the present value at such redemption date of (x) the redemption price of the Fixed Rate Note at May 15, 2009 (such redemption price being set forth in the table appearing above under the caption "Optional Redemption—Fixed Rate Notes") plus (y) all required interest payments due on the Fixed Rate Note through May 15, 2009 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Bund Rate as of such redemption date plus 50 basis points; over
 - (B) the principal amount of such Fixed Rate Note, if greater.

"Asset Sale" of the Company or a Restricted Subsidiary means any sale, lease, transfer, issuance or other disposition (or series of related sales, leases, transfers, issuances or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "disposition"), of (a) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares) or (b) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary (other than, in the case of clauses (a) and (b) above:

- (i) any disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to another Restricted Subsidiary;

- (ii) any disposition that constitutes a Permitted Investment or Restricted Payment permitted by the covenant described under "—Certain Covenants—Limitation on Restricted Payments"; and
- (iii) any disposition effected in compliance with the second paragraph of the covenant described under "—Certain Covenants—Merger, Consolidation and Sale of Property").

"Asset Sale" of the Issuer means any sale, lease, transfer, issuance or other disposition (or series of related sales, leases, transfers, issuances or dispositions) by the Issuer, including any disposition by means of a merger, consolidation or similar transaction of any assets of the Issuer.

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, at any date of determination, (a) if such Sale and Leaseback Transaction is a Capital Lease Obligation, the amount of Debt represented thereby according to the definition of "Capital Lease Obligation" and (b) in all other instances, the greater of:

- (i) the Fair Market Value of the Property subject to such Sale and Leaseback Transaction; and
- (ii) the present value (discounted at the interest rate borne by the Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of any date of determination, with respect to any Debt or Preferred Stock, the quotient obtained by dividing (a) the sum of the product of the numbers of years (rounded to the nearest one-twelfth of one year) from the date of determination to the dates of each successive scheduled principal payment of such Debt or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (b) the sum of all such payments.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board of Directors.

"Bund Rate" means (i) the rate borne by direct obligations of the Federal Republic of Germany (Bunds or Bundesanleihen) having a constant maturity most nearly equal to the period from the redemption date to May 15, 2009 and (ii) if there are no such obligations, the rate determined by linear interpolation between the rates borne by the two direct obligations of the Federal Republic of Germany maturing closest to, but straddling, such date, in each case as published in the *Financial Times*.

"Business Day" means a day other than a Saturday, Sunday or other day on which banking institutions in the State of New York, London or the Kingdom of Spain or a place of payment are authorized or required by law to close.

"Capital Lease Obligation" means any obligation under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP; and the amount of Debt represented by such obligation shall be the capitalized amount of such obligations determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of "—Certain Covenants—Limitation on Liens," a Capital Lease Obligation shall be deemed secured by a Lien on the Property being leased.

"Capital Stock" means, with respect to any Person, any shares or other equivalents (however designated) of any class of corporate stock or partnership interests or any other participations, rights, warrants, options or other interests in the nature of an equity interest in such Person, including Preferred Stock, but excluding any debt security convertible or exchangeable into such equity interest.

"Capital Stock Sale Proceeds" means the aggregate cash proceeds received by the Company from the issuance or sale (other than to a Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any such Subsidiary for the benefit of their employees) by the Company of its Capital Stock (other than Disqualified Stock) after the Issue Date, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Change of Control" means the occurrence of any of the following events:

- (a) prior to the first Public Equity Offering, any Person, other than a Permitted Holder, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for purposes of this clause (a) such Person shall be deemed to have "beneficial ownership" of all shares that any such other Person has the right to acquire, whether such right is exercisable immediately or

only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company (for the purposes of this clause (a), such Person shall be deemed to beneficially own any Voting Stock of an entity held by any other entity (the "parent entity"), if such other Person is the beneficial owner (as defined in this clause (a), directly or indirectly, of more than 50% of the voting power of the Voting Stock of such parent entity);

- (b) on or after the first Public Equity Offering during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with (i) any new directors whose election or appointment by such Board of Directors, or whose nomination for election by the shareholders of GCO or the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved or (ii) any new directors whose nomination for election by the shareholders of GCO or the Company was approved by a majority of Permitted Holders) cease for any reason to constitute a majority of the Board of Directors then in office;
- (c) the sale, transfer, assignment, lease, conveyance or other disposition, directly or indirectly, of all or substantially all the assets of the Company or the Restricted Subsidiaries, considered as a whole (other than a disposition of such assets as an entirety or substantially as an entirety to a Wholly Owned Subsidiary or to one or more Permitted Holders) shall have occurred, or Cableuropa or any Holdco of Cableuropa merges, consolidates or amalgamates with or into any other Person (other than one or more Permitted Holders) or any other person (other than one or more Permitted Holders) merges, consolidates or amalgamates with or into Cableuropa or any Holdco of Cableuropa in any such event pursuant to a transaction in which the outstanding Voting Stock of Cableuropa or any Holdco of Cableuropa is reclassified into or exchanged for cash, securities or other Property, other than any such transaction where (i) the outstanding Voting Stock of Cableuropa or any Holdco of Cableuropa is reclassified into or exchanged for Voting Stock of the surviving corporation and (ii) the holders of the Voting Stock of Cableuropa or any Holdco of Cableuropa immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction; or
- (d) Retco or another professional trust corporation (which is not an Affiliate of or otherwise related to the Company or its Affiliates) shall cease to directly or indirectly hold at least 98% of the Capital Stock of the Issuer pursuant to the terms of an English law a charitable trust.

"**Commission**" means the U.S. Securities and Exchange Commission.

"**Company**" means, prior to a Repayment Event, Cableuropa, and thereafter means the Parent Guarantor.

"**Consolidated Interest Expense**" means, for any period, the total interest expense of the Company and its consolidated Restricted Subsidiaries determined in accordance with GAAP, plus, to the extent not included in such total interest expense, and to the extent Incurred by the Company or its Restricted Subsidiaries:

- (a) interest expense attributable to leases constituting part of a Sale and Leaseback Transaction and to capital leases;
- (b) amortization of debt discount and debt issuance cost, including commitment fees;
- (c) capitalized interest (other than with respect to Subordinated Shareholder Indebtedness);
- (d) cash or non-Cash interest expenses (other than with respect to Subordinated Shareholder Indebtedness);
- (e) commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;
- (f) net costs associated with Hedging Obligations (including amortization of fees);
- (g) Disqualified Stock Dividends;
- (h) Preferred Stock Dividends;
- (i) interest Incurred in connection with Investments in discontinued operations;
- (j) interest accruing on any Debt of any other Person to the extent such Debt is Guaranteed by the Company or any Restricted Subsidiary; and
- (k) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or

trust to pay interest or fees to any Person (other than the Company) in connection with Debt Incurred by such plan or trust.

"Consolidated Net Income" means, for any period, the net income (loss) of the Company and its consolidated Restricted Subsidiaries determined in accordance with GAAP; *provided, however*, that there shall not be included in such Consolidated Net Income:

- (a) any net income (loss) of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:
 - (i) subject to the exclusion contained in clause (c) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution; and
 - (ii) the Company's equity in a net loss of any such Person other than an Unrestricted Subsidiary for such period shall be included in determining such Consolidated Net Income;
- (b) for purposes of the covenant described under "**Certain Covenants—Limitation on Restricted Payments**" only, any net income (loss) of any Person acquired by the Company or any of its consolidated Subsidiaries in a pooling of interests transaction for any period prior to the date of such acquisition;
- (c) any gain (but not loss) realized upon the sale or other disposition of any Property of the Company or any of its consolidated Subsidiaries (including pursuant to any Sale and Leaseback Transaction) that is not sold or otherwise disposed of in the ordinary course of business;
- (d) any extraordinary gain or loss;
- (e) the cumulative effect of a change in accounting principles; and
- (f) any non-cash compensation expense realized for grants of performance shares, stock options or other rights to officers, directors and employees of the Company or any Restricted Subsidiary; *provided* that such shares, options or other rights can be redeemed at the option of the holder only for Capital Stock of the Company (other than Disqualified Stock).

Notwithstanding the foregoing, for purposes of the covenant described under "**Certain Covenants—Limitation on Restricted Payments**" only, there shall be excluded from Consolidated Net Income any dividends, repayments of loans or advances or other transfers of assets from Unrestricted Subsidiaries to the Company or a Restricted Subsidiary to the extent such dividends, repayments or transfers increase the amount of Restricted Payments permitted under such covenant pursuant to clause (c)(iv) thereof.

"Credit Facility" or **"Credit Facilities"** means, one or more debt facilities, or commercial paper facilities with banks, insurance companies or other institutional lenders providing for revolving credit loans, term loans, notes, including the Senior Bank Facility, letters of credit or other forms of guarantees and assurances or other credit facilities, including overdrafts, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time; *provided*, that such debt or commercial paper facilities may not provide for or consist of the borrowing or issuance of any Public Debt; and *provided, further*, that no such amendment, restatement, modification, renewal, refund, replacement or refinancing may consist of or provide for the borrowing or issuance of Public Debt.

"Currency Exchange Protection Agreement" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates.

"Debt" means, with respect to any Person on any date of determination (without duplication):

- (a) the principal of and premium (if any) in respect of (i) debt of such Person for money borrowed and (ii) debt evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable;
- (b) all Capital Lease Obligations of such Person and all Attributable Debt in respect of Sale and Leaseback Transactions entered into by such Person;
- (c) all obligations of such Person issued or assumed as the deferred purchase price of Property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable or accrued expenses arising in the ordinary course of business);
- (d) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in (a) through

(c) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

- (e) the amount of all obligations of such Person with respect to the Repayment of any Disqualified Stock or, with respect to any Restricted Subsidiary of such Person, any Preferred Stock of such Restricted Subsidiary (but excluding, in each case, any accrued dividends);
- (f) all obligations of the type referred to in clauses (a) through (e) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee;
- (g) all obligations of the type referred to in clauses (a) through (f) of other Persons secured by any Lien on any Property of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such Property or the amount of the obligation so secured; and
- (h) to the extent not otherwise included in this definition, Hedging Obligations of such Person.

The amount of Debt of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation. For the purposes of this definition, "Debt" shall not include Subordinated Shareholder Indebtedness. The amount of Debt represented by a Hedging Obligation shall be equal to (i) zero if such Hedging Obligation has been Incurred pursuant to clauses (d) or (e) of the third paragraph of the covenant described under "—Certain Covenants—Limitation on Debt" or (ii) the notional amount of such Hedging Obligation if not Incurred pursuant to such clauses.

"Default" means any event which is, or after the giving of notice or the passage of time or both would be, an Event of Default.

"Designated Senior Debt" means (a) any Senior Debt that has, at the time of determination, an aggregate principal amount outstanding of at least €25.0 million (including the amount of all undrawn commitments and matured and contingent reimbursement obligations pursuant to letters of credit thereunder) that is specifically designated in the instrument evidencing such Senior Debt and is designated in a notice delivered by the Company to the holders or a Representative of the holders of such Senior Debt and in an Officers' Certificate of the Company delivered to the Trustee as "Designated Senior Debt" of the Company for purposes of the Indentures and (b) the Senior Bank Facility.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable, in either case at the option of the holder thereof) or otherwise:

- (i) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;
 - (ii) is or may become redeemable or repurchaseable at the option of the holder thereof, in whole or in part; or
 - (iii) is convertible or exchangeable at the option of the holder thereof for Debt or Disqualified Stock,
- on or prior to, in the case of clauses (i),(ii) or (iii), the first anniversary of the Stated Maturity of the Notes.

"Disqualified Stock Dividends" means all dividends with respect to Disqualified Stock of the Company held by Persons other than a Wholly Owned Subsidiary. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory federal income tax rate (expressed as a decimal number between 1 and 0) then applicable to the Company.

"EBITDA" means, for any period, an amount equal to, for any Person:

- (a) the sum of Consolidated Net Income for such period (exclusive of any gain or loss realized in such period upon an Asset Sale), plus the following to the extent reducing Consolidated Net Income for such period:
 - (i) the provision for taxes based on income or profits or utilized in computing net loss,
 - (ii) Consolidated Interest Expense,
 - (iii) depreciation,

- (iv) amortization of intangibles; and
 - (v) any other non-cash items (other than any such non-cash item to the extent that it represents an accrual of or reserve for cash expenditures in any future period), minus
- (b) all non-cash items increasing Consolidated Net Income for such period (other than any such non-cash item to the extent that it will result in the receipt of cash payments in any future period), all for such Person and its subsidiaries (or, in the case of the Company, the Restricted Subsidiaries) determined in accordance with GAAP consistently applied.

"Enforcement Action" means, in relation to any Debt of the Issuer or any Note Guarantor, any action (whether taken by the relevant creditor or creditors or an agent or Trustee on its or their behalf) to:

- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of such Debt or to require the Issuer or a Note Guarantor to redeem or purchase any part of such Debt;
- (b) recover all or any part of such Debt (including, by exercising any rights of set-off or combination of accounts);
- (c) exercise or enforce any security right against sureties or any other rights under any other document or agreement in relation to (or given in support of) all or any part of such Debt (including under any security documents);
- (d) commence legal or arbitration proceedings against any Person; or
- (e) apply or petition or vote for (or take any other steps which may reasonably be expected to lead to) a total or partial liquidation, dissolution or winding up of any Note Guarantor or an insolvency, bankruptcy, reorganization, composition, receivership (*suspensión de pagos*), administration, voluntary arrangement, judicial intervention or similar proceeding relating to any Note Guarantor or any of such Note Guarantor's Property;

provided that neither (i) any legal proceedings not falling within clause (a) through (e) above necessary to preserve the validity and existence of claims, including the commencement of such claims before any court or governmental authority nor (ii) legal proceedings against the Issuer or any Guarantor to challenge the basis on which any sale or disposal is being implemented nor (iii) legal proceedings against any person in connection with any securities violation or fraud shall, in each case, constitute Enforcement Action.

"euro" or **"€"** means the lawful currency of the member states of the European Union who have agreed to share a common currency in accordance with the provisions of the Maastricht Treaty dealing with European monetary union.

"European Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the German government or French government (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such German government or French government is pledged and which are not callable or redeemable at the Issuer's option.

"Event of Default" has the meaning set forth under "—Events of Default."

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Excluded Companies" means Madrid Sistemas de Cable, S.A. ("MSC"), Sevilla Sistemas de Cable, S.A. ("SSC"), Univertel Comunicações Universais ("UCV"), S.A., and NSEC International, B.V. ("NSEC") UCV and NSEC do not conduct any activities. MSC and SSC do not conduct any activities and are excluded from Cableuropa's consolidated financial statements.

"Existing Equity Value Certificate Guarantee" means the Guarantee by Cableuropa of the Issuer's obligations under the Existing Equity Value Certificates.

"Existing Equity Value Certificates" means (i) the 275,000 Equity Value Certificates of the Issuer which initially evidenced the right to receive the cash value of 632,4057 ordinary shares of Cableuropa in dollars and the 125,000 Equity Value Certificates of the Issuer which initially evidenced the right to receive the cash value of 305.1645 ordinary shares of Cableuropa in euro, all dated May 6, 1999 and (ii) the 200,000 Equity Value Certificates of the Issuer evidencing the right to receive the cash value of 9,779,025.70 ordinary shares of Cableuropa in dollars and the 150,000 Equity Value Certificates of the Issuer evidencing the right to receive the cash value of 6,898,246.97 ordinary shares of Cableuropa in euro, all dated February 9, 2001.

"Existing EVC Funding Agreements" means the agreements dated as of May 6, 1999 and February 9, 2001 between Cableuropa and the Issuer pursuant to which Cableuropa will pay to the Issuer an amount sufficient to fund the Issuer's obligations under the Existing Equity Value Certificates.

"Existing Note Guarantee" means a Guarantee on the terms set forth in the Existing Notes Indentures by the applicable Guarantors of the Issuer's obligations with respect to the Existing Notes.

"Existing Notes" means the \$275,000,000 13% notes due 2009, the €125,000,000 13% notes due 2009, the €200,000,000 14% notes due 2010 of the Issuer, the \$200,000,000 14% notes due 2011 and the € 150,000,000 14% notes due 2011.

"Existing Notes Indentures" means the indenture dated as of May 6, 1999 in respect of the \$275,000,000 13% notes due 2009 of the Issuer, the indenture dated as of May 6, 1999 in respect of the € 125,000,000 13% notes due 2009 of the Issuer, the indenture dated as of June 30, 2000 in respect of the €200,000,000 14% notes due 2010 of the Issuer, the indenture dated February 9, 2001 in respect of the \$200,000,000 14% notes due 2011 of the Issuer and the indenture dated February 9, 2001 in respect of the €150,000,000 14% notes due 2011 of the Issuer.

"Fair Market Value" means, with respect to any Property, the price that could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value shall be determined (a) if such Property has a Fair Market Value equal to or less than €5.0 million, by any Officer of the Company or (b) if such Property has a Fair Market Value in excess of €5.0 million, by a majority of the Board of Directors and evidenced by a board resolution, dated within 60 days of the relevant transaction, delivered to the Trustee.

"Fixed Rate Note Proceeds Loan" means the loan dated as of the Issue Date pursuant to which the Issuer shall loan the proceeds of the offering of the Fixed Rate Notes to Cableuropa and the other Subsidiary Guarantors.

"Floating Rate Note Proceeds Loan" means the loan dated as of the Issue Date pursuant to which the Issuer shall loan the proceeds of the offering of the Floating Rate Notes to Cableuropa and the other Subsidiary Guarantors.

"GAAP" means generally accepted accounting principles in Spain, consistently applied, which are in effect from time to time.

At any time after the Issue Date, the Company may elect to apply IFRS in lieu of GAAP and, upon such election, references herein to GAAP shall thereafter be construed to mean IFRS as in effect from time to time after such election; *provided* that any such election once made shall be irrevocable. The Company shall give notice of any such election to the Trustee and the holders.

"GCO" means Grupo Corporativo ONO, S.A., and its successors.

"GCO Loan" means the loan agreement dated February 13, 2003 between Cableuropa as borrower and GCO as lender in an aggregate principal amount of €98.5 million. GCO has confirmed that Cableuropa will convert the GCO Loan into common stock of Cableuropa. See "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term "Guarantee" shall not include (i) endorsements for collection or deposit in the ordinary course of business or (ii) a contractual commitment by one Person to invest in another Person for so long as such Investment is reasonably expected to constitute a Permitted Investment under clause (b) of the definition of Permitted Investments. The term "Guarantee" used as a verb has a corresponding meaning. The term "Guarantor" shall mean any Person Guaranteeing any obligation.

"Hedging Obligation" of any Person means any obligation of such Person pursuant to any Interest Rate Agreement, Currency Exchange Protection Agreement or any other similar agreement or arrangement.

"Holdco" means any entity that owns 100% of the share capital of another company (whether directly, or through wholly-owned subsidiaries).

"holder" means (i) in the case of Global Notes, each Person shown in the records of the Book-Entry Depository as a holder of a certificated depositary interest in respect of such Global Notes for all purposes other than with respect to the payment of principal of, premium, if

any, and interest on, such Notes the right to which shall be vested, as against the Issuer, solely in the bearer of such Global Note (being at the Issue Date the Book-Entry Depository) in accordance with and subject to its terms and the terms of the Indentures and (ii) in the case of Definitive Notes, the Person in whose name a Definitive Note is registered on the registrar's books.

"IFRS" means the accounting standards adopted by the International Financial Reporting Standards Board and its predecessor.

"Incur" means, with respect to any Debt or other obligation of any Person, to create, issue, incur (by merger, conversion, exchange or otherwise), extend, assume, Guarantee or otherwise become liable in respect of such Debt or other obligation or the recording, as required pursuant to GAAP or otherwise, of any such Debt or obligation on the balance sheet of such Person (and "Incurrence" and "Incurred" shall have meanings correlative to the foregoing); *provided, however*, that a change in GAAP that results in an obligation of such Person that exists at such time, and is not theretofore classified as Debt, becoming Debt shall not be deemed an Incurrence of such Debt; *provided further, however*, that solely for purposes of determining compliance with "—Certain Covenants—Limitation on Debt," amortization of debt discount shall not be deemed to be the Incurrence of Debt, *provided* that in the case of Debt sold at a discount, the amount of such Debt Incurred shall at all times be the aggregate principal amount at Stated Maturity.

"Independent Appraiser" means an investment banking firm of international standing or any third party appraiser of international standing, *provided* that such firm or appraiser is not an Affiliate of the Company.

"Interest Rate Agreement" means, for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement designed to protect against fluctuations in interest rates.

"Investment" by any Person means any direct or indirect loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of such Person), advance or other extension of credit or capital contribution (by means of transfers of cash or other Property to others or payments for Property or services for the account or use of others, or otherwise) to, or Incurrence of a Guarantee of any obligation of, or purchase or acquisition of Capital Stock, bonds, notes, debentures or other securities or evidence of Debt issued by, any other Person. For purposes of the covenant described under "—Certain Covenants—Limitation on Restricted Payments" and "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries" and of the definition of "Restricted Payment," "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary at the time that such Subsidiary is designated an Unrestricted Subsidiary. In determining the amount of any Investment made by transfer of any Property other than cash, such Property shall be valued at its Fair Market Value at the time of such investment.

"Issue Date" means the date on which the Notes are initially issued.

"Issuer" means ONO Finance Plc.

"Issuer Restricted Payment" means with respect to the Issuer;

- (a) any dividend or distribution (whether made in cash, securities or other Property) declared or paid on or with respect to any shares of Capital Stock of the Issuer (including any payment in connection with any merger or consolidation with or into the Issuer);
- (b) the purchase, repurchase, redemption, acquisition or retirement for value of any Capital Stock of the Issuer or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock;
- (c) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other installment payment, of any Subordinated Obligation (other than the purchase, repurchase or other acquisition of any Subordinated Obligation purchased in anticipation of satisfying a scheduled maturity, sinking fund or amortization or other installment obligation, in each case due within one year of the date of acquisition); or
- (d) any Investment (other than Permitted Investments of the Issuer) in any Person.

"Lien" means, with respect to any Property of any Person, any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, lien, charge, easement (other than any easement not materially impairing usefulness or marketability), encumbrance, preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever on or with respect to such Property (including any Capital Lease Obligations, conditional sale or other title retention agreement having substantially the same economic effect as any of the foregoing or any Sale and Leaseback Transaction).

"Material License" means a license, authorization or concession to operate a cable or telephone system held by the Company or any of the Restricted Subsidiaries which system at the time of determination covers a number of Total Homes which equals or exceeds 7.5% of the

aggregate number of Total Homes covered by all of the licenses, authorizations or concessions to operate cable or telephone systems held by the Company and the Restricted Subsidiaries at such time.

"Maturity" means, with respect to any indebtedness, the date on which any principal of such indebtedness becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"Moody's" means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

"Multi-Borrower Credit Facilities" means the multi-borrower credit facility dated as of May 6, 1999 among the Issuer, Cableuropa and the other borrowers thereunder pursuant to which the Issuer lent the proceeds of the Issuer's \$275,000,000 13% notes due 2009 to Cableuropa and such other borrowers, the multi-borrower credit facility dated as of May 6, 1999 among the Issuer, Cableuropa and the other borrowers thereunder pursuant to which the Issuer lent the proceeds of the Issuer's €125,000,000 13% notes due 2009 to Cableuropa and such other borrowers, the multi-borrower credit facility dated as of June 30, 2000 among the Issuer, Cableuropa and the other borrowers thereunder pursuant to which the Issuer lent the proceeds of the Issuer's €200,000,000 14% notes due 2010 to Cableuropa and such other borrowers, the multi-borrower credit facility dated as of February 9, 2001 among the Issuer, Cableuropa and the other borrowers thereunder pursuant to which the Issuer lent the proceeds of the Issuer's \$200,000,000 14% notes due 2011 to Cableuropa and such other borrowers, and the multi-borrower credit facility dated as of February 9, 2001 among the Issuer, Cableuropa and the other borrowers thereunder pursuant to which the Issuer lent the proceeds of the Issuer's €150,000,000 14% notes due 2011 to Cableuropa and such other borrowers.

"Murcia" means Región de Murcia de Cable, S.A. and its successors.

"Net Available Cash" from any Asset Sale means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Debt or other obligations relating to the Property that is the subject of such Asset Sale or received in any other non-cash form), in each case net of:

- (a) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale;
- (b) all payments made on any Debt that is secured by any Property subject to such Asset Sale, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such Property, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law, be repaid out of the proceeds from such Asset Sale;
- (c) all distributions and other payments required to be made to minority interest holders in subsidiaries or joint ventures as a result of such Asset Sale; and
- (d) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the Property disposed in such Asset Sale and retained by the Company or any Restricted Subsidiary after such Asset Sale.

"Net Cash Proceeds" means:

- (a) with respect to any Asset Sale, the proceeds thereof in the form of cash or cash equivalents including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of:
 - (i) brokerage commissions and other fees and expenses (including, without limitation, fees and expenses of legal counsel, accountants, investment banks and other consultants) related to such Asset Sale;
 - (ii) provisions for all taxes paid or payable, or required to be accrued as a liability under GAAP as a result of such Asset Sale;
 - (iii) all payments made on any Debt that is secured by any Property subject to such Asset Sale, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such Property, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law, be repaid out of the proceeds from such Asset Sale;
 - (iv) all distributions and other payments required to be made to any Person (other than the Issuer or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale; and

- (v) appropriate amounts required to be provided by the Issuer or any Restricted Subsidiary, as the case may be, as a reserve in accordance with GAAP against any liabilities associated with such Asset Sale and retained by the Issuer or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to the Trustee; and
- (b) with respect to any capital contributions, issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock as referred to under "—Certain Covenants—Limitation on Restricted Payments," the proceeds of such issuance or sale in the form of cash or cash equivalents, payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of for, cash or cash equivalents (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees and expenses actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result of thereof.

"Notarize" means, with respect to any Debt or other obligation, to notarize (put in notarial form before a Spanish notary republic) or to intervene (signed before a Spanish notary public), in each case in accordance with Spanish law.

"Note Guarantees" means a guarantee on the terms set forth in the Indentures by the Parent Guarantor and the Subsidiary Guarantors of the Issuer's obligations with respect to the Notes.

"Note Guarantors" means the Parent Guarantor and the Subsidiary Guarantors.

"Notes Proceeds Loans" means the Fixed Rate Note Proceeds Loan and the Floating Rate Note Proceeds Loan.

"Officer" means any director, the Chief Executive Officer, the President, the Chief Financial Officer or any person performing similar functions, of the Company, a Restricted Subsidiary or the Issuer, as applicable.

"Officers' Certificate" means a certificate signed by two Officers of the Company, a Restricted Subsidiary or the Issuer, as applicable, at least one of whom shall be the principal executive officer or principal financial officer of the Company, such Restricted Subsidiary or the Issuer, as applicable, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Company, the Restricted Subsidiaries or the Issuer or the Trustee.

"Parent Guarantee" means a guarantee on the terms set forth in the Indentures by the Parent Guarantor of the Issuer's obligations with respect to the Notes.

"Parent Guarantor" means a direct Holdco of Cableuropa that is a subsidiary of GCO, which will, upon a Repayment Event, guarantee the obligations of the Issuer under the Indentures. The Parent Guarantor will not engage in any business activity or undertake any other activity except any activity relating to (i) the granting of the Parent Guarantee, (ii) fulfilling its obligations under the Parent Guarantee, (iii) any activities permitted by the Indentures, or (iv) directly related to the establishment and maintenance of its corporate existence.

"Participative Loans" means the loan agreements dated January 31, 2002 and March 30, 2002 between Cableuropa as borrower and GCO as lender in the aggregate principal amount of €100 million and €200 million, respectively. GCO has confirmed that Cableuropa will convert the Participative Loans into common stock of Cableuropa. See "Offering Memorandum Summary—Recent Developments—Conversion of the GCO Loan and Participative Loans into Common Stock of Cableuropa."

"Permitted Debt" has the meaning given to such term under "—Certain Covenants—Limitation on Debt."

"Permitted Holders" means (a) General Electric Company; Bank of America Corporation; Caisse de dépôt et placement du Québec; Banco Santander; Grupo Ferrovial S.A.; Grupo Multitel, Multitel Luxco, Hidrocarburo S.A.; VAL Telecommunications, S.L.; Sodinteleco, S.L.; any Affiliate of such Person or any Person of which the foregoing "beneficially owns" (as defined in Rule 13d-3 under the Exchange Act), individually or collectively with any of the foregoing, at least 66²/₃% of the total voting power of the Voting Stock of such Person and (b) any Person acting in the capacity of an underwriter in connection with a public or private offering of the Company's Capital Stock.

"Permitted Investment" means any Investment by the Company, a Restricted Subsidiary or the Issuer, as specifically set forth below, in:

- (a) in the case of the Company and the Restricted Subsidiaries, the Company, any Restricted Subsidiary or any Person that will, upon the making of such Investment, become a Restricted Subsidiary; *provided, however*, that such Restricted Subsidiary is engaged in the Telecommunications Business;
- (b) in the case of the Company and the Restricted Subsidiaries, any Person if as a result of such Investment such Person is merged or consolidated with or into, or transfers or conveys all or substantially all its Property to, the Company or a Restricted Subsidiary; *provided, however*, that such Person is engaged in the Telecommunications Business;
- (c) in the case of the Company, the Restricted Subsidiaries and the Issuer, Temporary Cash Investments;
- (d) in the case of the Company and the Restricted Subsidiaries, receivables owing to the Company or a Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however*, that such trade terms may include such concessionary trade terms as the Company or such Restricted Subsidiary deems reasonable under the circumstances;
- (e) in the case of the Company and the Restricted Subsidiaries, payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (f) in the case of the Company and the Restricted Subsidiaries, loans and advances to employees made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary, as the case may be; *provided, however*, that such loans and advances do not exceed €1.0 million at any one time outstanding;
- (g) in the case of the Company and the Restricted Subsidiaries, stock, obligations or other securities received in settlement of debts created in the ordinary course of business and owing to the Company or such Restricted Subsidiary or in satisfaction of judgments;
- (h) in the case of the Company and the Restricted Subsidiaries, any Person to the extent such Investment represents the non-cash portion of the consideration received in connection with an Asset Sale consummated in compliance with the covenant described under "—Certain Covenants—Limitation on Sale of Certain Assets";
- (i) in the case of the Company and the Restricted Subsidiaries, other Investments made for Fair Market Value that do not exceed the greater of (x) €20 million or (y) an amount equal to 10% of any Capital Stock Sale Proceeds received in connection with a Public Equity Offering to the extent that such Capital Stock Sale Proceeds have not been used pursuant to clause (c)(ii) of the covenant described under "—Certain Covenants—Limitation on Restricted Payments" to make a Restricted Payment, in either case, outstanding at any one time in the aggregate; and
- (j) in the case of the Issuer, the loan of the proceeds of (x) the Notes by the Issuer to Cableuropa and the other Subsidiary Guarantors under the Notes Proceeds Loans and (y) a debt offering with terms substantially similar to the offering of the Notes by the Issuer to Cableuropa and the other Subsidiary Guarantors under an agreement or agreements substantially similar to the Notes Proceeds Loans.

"Permitted Junior Securities" means, with respect to any Person: (a) Capital Stock in such Person; or (b) debt securities of such Person that are subordinated to all Senior Debt and any debt securities issued in exchange for Senior Debt to substantially the same extent as, or to a greater extent that, Subordinated Guarantees are subordinated to Senior Debt pursuant to the Indentures.

"Permitted Liens" means (A) with respect to the Company and the Restricted Subsidiaries:

- (a) Liens to secure Debt permitted to be Incurred under clauses (b), (d) and (e) of the third paragraph (the definition of "Permitted Debt of the Company and the Restricted Subsidiaries") of the covenant described under "—Certain Covenants—Limitation on Debt";
- (b) Liens for taxes, assessments or governmental charges, levies or claims on the Property of the Company or any Restricted Subsidiary if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings promptly instituted and diligently concluded; *provided, however*, that any reserve or other appropriate provision that shall be required in conformity with GAAP shall have been made therefor;
- (c) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens and other similar Liens, on the Property of the Company or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations that are not more than 60 days past due or are being contested in good faith and by appropriate proceedings;
- (d) Liens on the Property of the Company or any Restricted Subsidiary Incurred in the ordinary course of business to secure performance of

obligations with respect to statutory or regulatory requirements, performance or return-of-money bonds, surety bonds or other obligations of a like nature and Incurred in a manner consistent with industry practice, in each case which are not Incurred in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of Property and which do not in the aggregate impair in any material respect the use of Property in the operation of the business of the Company and the Restricted Subsidiaries taken as a whole;

- (e) Liens on Property existing at the time the Company or any Restricted Subsidiary acquired such Property, including any acquisition by means of a merger or consolidation with or into the Company or any Restricted Subsidiary; *provided, however*, that any such Lien may not extend to any other Property of the Company or any Restricted Subsidiary; *provided further, however*, that such Liens shall not have been Incurred in anticipation of or in connection with the transaction or series of related transactions pursuant to which such Property was acquired by the Company or any Restricted Subsidiary;
- (f) Liens on the Property of a Person existing at the time such Person becomes a Restricted Subsidiary; *provided, however*, that any such Lien may not extend to any other Property of the Company or any other Restricted Subsidiary that is not a direct Subsidiary of such Person; *provided further, however*, that any such Lien was not Incurred in anticipation of or in connection with the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary;
- (g) pledges or deposits by the Company or any Restricted Subsidiary under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which the Company or any Restricted Subsidiary is party, or deposits to secure public or statutory obligations of the Company or any Restricted Subsidiary, or deposits for the payment of rent, in each case Incurred in the ordinary course of business;
- (h) easements, rights of way, restrictions on the use of properties and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character;
- (i) Liens on the Property of the Company or any Restricted Subsidiary to secure any Refinancing, in whole or in part, of any Debt secured by Liens referred to in clause (a), (e) or (f) above or (p) below; *provided, however*, that any such Lien shall be limited to all or part of the same Property that secured the original Lien (together with improvements and accessions to such Property) and the aggregate principal amount of Debt that is secured by such Lien shall not be increased to an amount greater than the sum of (i) the outstanding principal amount, or, if greater, the committed amount, of the Debt secured by Liens described under clause (a), (e) or (f) above or (p) below, as the case may be, at the time the original Lien became a Permitted Lien under the Indentures and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, incurred by the Company or such Restricted Subsidiary in connection with such Refinancing;
- (j) Liens on Property of any Unrestricted Subsidiary; *provided, however*, that such Liens do not extend to any Property of the Company and the Restricted Subsidiaries;
- (k) Liens in favor of the Company or any Restricted Subsidiary;
- (l) Liens on Property of the Company or any Restricted Subsidiary pursuant to conditional sale or title retention agreements;
- (m) Liens on Property of the Company or any Restricted Subsidiary relating to judgments being contested in good faith by the Company or such Restricted Subsidiary;
- (n) Liens on the Property of the Company or any Restricted Subsidiary pursuant to good faith contract deposits;
- (o) Liens on Property of the Company or any Restricted Subsidiary arising as a result of immaterial leases of such Property to other persons;
- (p) Liens relating to escrow accounts established for the benefit of holders of Public Debt of Cableuropa;
- (q) Liens to secure Debt permitted to be incurred under the Subsidized Loans and VAT Discounting Facility pursuant to clause (h) of the third paragraph (the definition of "Permitted Debt of the Company and the Restricted Subsidiaries") of the covenant described under "— Certain Covenants—Limitation on Debt";
- (r) Liens existing on the Issue Date not otherwise described in clauses (a) through (q) above; and
- (s) Liens Incurred in the ordinary course of business of the Company or any subsidiary of the Company with respect of obligations that do not exceed €10.0 million at any one time outstanding;

and (B) with respect to the Issuer:

- (a) The pledge of the Notes Proceeds Loans for the benefit of lenders under the Senior Bank Facility after a Repayment Event;
- (b) Liens relating to escrow accounts established for the benefit of holders of Public Debt of Cableuropa; and
- (c) Liens for taxes, assessments or governmental charges, levies or claims on the Property of the Issuer if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings promptly instituted and diligently concluded; *provided, however*, that (x) any reserve or other appropriate provision that shall be required in conformity with GAAP shall have been made therefor and (y) the Issuer shall have notified the Company that a payment under the Notes Proceeds Loans in respect thereof may be due.

"Permitted Refinancing Debt" means any Debt that Refinances any other Debt, including any successive Refinancings, so long as:

- (a) such Debt is in an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) not in excess of the sum of (i) the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding of the Debt being Refinanced and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such Refinancing;
- (b) the Average Life of such Debt is equal to or greater than the Average Life of the Debt being Refinanced;
- (c) the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being Refinanced; and
- (d) the new Debt shall not be senior in right of payment to the Debt that is being Refinanced,

provided, however, that Permitted Refinancing Debt shall not include Debt of the Company or a Restricted Subsidiary that Refinances Debt of an Unrestricted Subsidiary.

"Person" means any individual, corporation, company (including any limited liability company), association, partnership, joint venture, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" means any Capital Stock of a Person, however designated, which entitles the holder thereof to a preference with respect to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of any other class of Capital Stock issued by such Person.

"Preferred Stock Dividends" means all dividends with respect to Preferred Stock of Restricted Subsidiaries held by Persons other than the Company or a Wholly Owned Subsidiary. The amount of any such dividend shall be equal to the quotient of such dividend divided by the difference between one and the maximum statutory federal income rate (expressed as a decimal number between 1 and 0) then applicable to the Issuer of such Preferred Stock.

"pro forma" means, with respect to any calculation made or required to be made pursuant to the terms hereof, a calculation performed in accordance with Article 11 of Regulation S-X promulgated under the Securities Act, as interpreted in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, or otherwise a calculation made in good faith by the Board of Directors after consultation with the independent certified public accountants of the Company, as the case may be.

"Pro Forma EBITDA" means for any Person, for any period, the EBITDA of such Person as determined on a consolidated basis in accordance with GAAP consistently applied after giving effect to the following: (i) if, during or after such period, such Person or any of its subsidiaries shall have made any Asset Sale, Pro Forma EBITDA of such Person and its subsidiaries for such period shall be reduced by an amount equal to the Pro Forma EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for the period or increased by an amount equal to the Pro Forma EBITDA (if negative) directly attributable thereto for such period and (ii) if, during or after such period, such Person or any of its subsidiaries completes an acquisition of any Person or business which immediately after such acquisition is a Subsidiary of such Person or whose assets are held directly by such Person or a Subsidiary of such Person, Pro Forma EBITDA shall be computed so as to give pro forma effect to the acquisition of such Person or business, *provided* that, with respect to the Company, all of the foregoing references to "Subsidiary" or "Subsidiaries" shall be deemed to refer only to a "Restricted Subsidiary" or "Restricted Subsidiaries."

"Property" means, with respect to any Person, any interest of such Person in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including Capital Stock in, and other securities of, any other Person. For purposes of any calculation required

pursuant to the Indentures, the value of any Property shall be its Fair Market Value.

"Public Debt" means any bonds, debentures, notes or other indebtedness of a type that could be issued or traded in any market where capital funds (whether debt or equity) are traded, including private placement sources of debt and equity as well as organized markets and exchanges, whether such indebtedness is issued in a public offering or in a private placement to institutional investors or otherwise.

"Public Equity Offering" means an underwritten public offering of ordinary shares of Cableuropa or any Holdco of Cableuropa, following which at least 15% of the total issued and outstanding ordinary shares of Cableuropa or any Holdco of Cableuropa is listed on a nationally recognized stock exchange or automated quotation system in the United States or in a member state of the European Union.

"Refinance" means, in respect of any Debt, to refinance, extend, renew, refund, repay, prepay, repurchase, redeem, defease or retire, or to issue other Debt, in exchange or replacement for, such Debt. "Refinanced" and "Refinancing" shall have correlative meanings.

"Relevant Taxing Jurisdiction" has the meaning given to such term under "—Additional Amounts."

"Repay" means, in respect of any Debt, to repay, prepay, repurchase, redeem, legally defease or otherwise retire such Debt. "Repayment" and "Repaid" shall have correlative meanings. For purposes of the covenant described under "—Certain Covenants—Limitation on Sale of Certain Assets," Debt shall be considered to have been Repaid only to the extent the related loan commitment, if any, shall have been permanently reduced in connection therewith.

"Repayment Event" means the later of (i) the establishment of a Holdco of Cableuropa that is a subsidiary of GCO; (ii) the guarantee of the Notes on a senior unsecured basis by that Holdco; and (iii) (a) the redemption, repurchase or maturity of all of the Existing Notes, or (b) the Existing Notes Indentures being amended to reflect the terms of the Indentures with respect to the subordination of the Subsidiary Guarantees following the redemption, repurchase or maturity of the Existing Notes.

"Representative" means the trustee, agent or representative expressly authorized to act in such capacity, if any, for any Senior Debt or if no person is so authorized, the holders of such Senior Debt.

"Restricted Payment" means;

- (a) any dividend or distribution (whether made in cash, securities or other Property) declared or paid on or with respect to any shares of Capital Stock of the Company or any Restricted Subsidiary (including any payment in connection with any merger or consolidation with or into the Company or any Restricted Subsidiary), except for:
 - (i) any dividend or distribution that is made solely to the Company or a Restricted Subsidiary;
 - (ii) any dividend or distribution that is made by a Restricted Subsidiary that is not a Wholly Owned Subsidiary to a shareholder other than the Company or a Restricted Subsidiary *provided* that (x) the dividend or distribution has been paid to all shareholders (including the Company and/or any Restricted Subsidiary) on a *pro rata* basis, or on a basis that results in the receipt by the Company or a Restricted Subsidiary of dividends or distributions of greater value than it would receive on a *pro rata* basis and (y) the aggregate amount of such dividends or distributions permitted by this exception (ii) does not exceed €500,000 per year; or
 - (iii) any dividend or distribution payable solely in shares of Capital Stock (other than Disqualified Stock) of the Company or such Restricted Subsidiary;
- (b) the purchase, repurchase, redemption, acquisition or retirement for value of any Capital Stock of the Company (other than from the Company or a Restricted Subsidiary) or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock of the Company (other than for or into Capital Stock of the Company that is not Disqualified Stock);
- (c) the purchase, repurchase, redemption, acquisition or retirement for value from any direct or beneficial shareholder of the Company of any Capital Stock of any Restricted Subsidiary or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock of a Restricted Subsidiary (other than for or into Capital Stock of a Restricted Subsidiary that is not Disqualified Stock);
- (d) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other installment payment, of any Subordinated Obligation (other than the purchase, repurchase or other acquisition of

any Subordinated Obligation purchased in anticipation of satisfying a scheduled maturity, sinking fund or amortization or other installment obligation, in each case due within one year of the date of acquisition or in exchange for Capital Stock of a Restricted Subsidiary); or

- (e) any Investment (other than Permitted Investments) in any Person.

"Restricted Subsidiaries" means (a) any Subsidiary (other than the Excluded Companies) of the Company unless such Subsidiary shall have been designated an Unrestricted Subsidiary as permitted or required pursuant to the covenant described under "—Certain Covenants— Designation of Restricted and Unrestricted Subsidiaries" and (b) an Unrestricted Subsidiary that is redesignated as a Restricted Subsidiary as permitted pursuant to such covenant.

"Retco" means Royal Exchange Trust Company Limited.

"Retecal" means Retecal Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A.

"S&P" means Standard & Poor's Ratings Service or any successor to the rating agency business thereof.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to Property now owned or hereafter acquired whereby the Company or a Restricted Subsidiary transfers such Property to another Person and the Company or a Restricted Subsidiary leases it from such Person.

"Senior Bank Facility" means the senior bank facility dated as of August 8, 2001, and as subsequently amended on February 13, 2003 among the ONO Group, as guarantors and borrowers, a series of international banks as arrangers, and Banc of America Securities Limited as agent and security agent, as further amended, restated, augmented, modified, renewed, refunded, replaced, or refinanced in whole or in part from time to time.

"Senior Debt" of any Person means:

- (a) all obligations consisting of any amount (including the principal, premium, if any, and accrued and unpaid interest (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company to the extent post-filing interest is allowed in such proceeding)) arising under or in respect of (i) Debt for borrowed money and (ii) Debt evidenced by notes, debentures, bonds or other similar instruments permitted under the Indentures;
- (b) all Capital Lease Obligations and all Attributable Debt in respect of Sale and Leaseback Transactions;
- (c) all obligations of any Person:
- (i) for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction;
 - (ii) under Hedging Obligations; or
 - (iii) issued or assumed as the deferred purchase price of Property and all conditional sale obligations and all obligations under any title retention agreement permitted under the Indentures; and
- (d) all obligations of other Persons of the type referred to in clauses (a), (b) and (c) above for the payment of which such Person is responsible or liable as Guarantor; *provided, however*, that Senior Debt shall not include:
- (A) Debt that is by its terms subordinate or *pari passu* in right of payment to the Notes Proceeds Loans, including any Senior Subordinated Debt or any Subordinated Obligations;
 - (B) any Debt Incurred in violation of the provisions of the Indentures;
 - (C) accounts payable or any other obligations to trade creditors created or assumed in the ordinary course of business in connection with the obtaining of materials or services (including Guarantees thereof or instruments evidencing such liabilities other than provided pursuant to Credit Facilities);
 - (D) any liability for federal, state, local, foreign or other taxes owed or owing;

- (E) any obligation of the Company or any Restricted Subsidiary to any Restricted Subsidiary (other than obligations of the Company to any Restricted Subsidiary which represent amounts provided to such Restricted Subsidiary under Senior Debt which such Restricted Subsidiary has lent to the Company); or
- (F) any obligations with respect to any Capital Stock of the Company.

"Senior Subordinated Debt"

- (a) With respect to the Company means the Multi-Borrower Credit Facilities and the Notes Proceeds Loans and any other subordinated Debt of the Company that specifically provides that such Debt is to rank *pari passu* with the Notes Proceeds Loans and is not subordinated by its terms to any other subordinated Debt or other obligation of the Company which is not Senior Debt of the Company. "Senior Subordinated Debt" of any Restricted Subsidiary or any other Note Guarantor has a correlative meaning; and
- (b) With respect to the Issuer means the Subordinated Debt of the Issuer that specifically provides that such Debt is to rank *pari passu* with the Notes (after payment of the Existing Notes) and is not subordinated by its terms to any other Subordinated Debt or other obligation of the Issuer which is not Senior Debt of the Issuer. "Senior Subordinated Debt" of any Restricted Subsidiary or any other Note Guarantor has a correlative meaning.

"Spanish Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the Kingdom of Spain (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the Kingdom of Spain is pledged and which are not callable or redeemable at the issuer's option.

"Stated Maturity" means, with respect to any Debt or security, the date specified in such Debt or security as the fixed date on which the payment of principal of such Debt or security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the issuer unless such contingency has occurred).

"Subordinated Obligation" means any Debt of any Note Guarantor (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Notes Proceeds Loans or the applicable Note Guarantee pursuant to a written agreement to that effect.

"Subordinated Shareholder Indebtedness" means subordinated indebtedness issued by the Company or any Restricted Subsidiary to any Holdco of Cableuropa or any Permitted Holder that by its terms or pursuant to the terms of any subordination agreement to which it is subject;

- (i) does not (including upon the happening of any event) mature and is not (including upon the happening of any event) mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder, in whole or in part, and does not include any provision requiring re-purchase by the Company or any Restricted Subsidiary (including upon the happening of any event) prior to the date that is one year after the date on which the Notes mature;
- (ii) does not (including upon the happening of any event) require or provide for the payment in cash or otherwise, of interest or any other amounts prior to its final Stated Maturity (*provided* that interest may accrete while such subordinated indebtedness is outstanding and accreted interest may become due upon acceleration of maturity as permitted by clause (c) of this definition and any interest may be satisfied at any time by the issues to the holders thereof of additional Subordinated Shareholder Indebtedness);
- (iii) does not provide (including upon the happening of any event) for the acceleration of its maturity or the exercise of remedies prior to the date that is one year after the date on which the Notes mature and are repaid other than by converting it into Capital Stock (other than Disqualified Stock);
- (iv) is not secured by a Lien on any asset of the Company or any Restricted Subsidiary and is not Guaranteed by any Restricted Subsidiary;
- (v) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or the Guarantees;
- (vi) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date that is one year after the date on which the Notes mature other than into or for Capital Stock (other than Disqualified Stock); and

- (vii) such Subordinated Shareholder Indebtedness shall be fully subordinated and junior in right of payment to the Notes, the Notes Guarantees and the Notes Proceeds Loans pursuant to subordination, payment blockage and enforcement limitation terms which, taken as a whole, are no less favorable, in any material respects, to the holders than those contained in the Notes Proceeds Loans and the Note Guarantees, as applicable, as in effect on the Issue Date.

"Subsidiary" means, in respect of any Person, any corporation, company (including any limited liability company), association, partnership, joint venture or other business entity of which a majority of the total voting power of the Voting Stock is at the time owned or controlled, directly or indirectly, by (a) such Person, (b) such Person and one or more subsidiaries of such Person or (c) one or more subsidiaries of such Person.

"Subsidiary Guarantee" means a guarantee on the terms set forth in the Indentures by each Subsidiary Guarantor of the Issuer's obligations with respect to the Notes.

"Subsidiary Guarantor" means Cableuropa; Murcia; Valencia; Valencia South; and Valencia North; and any other Person that becomes a Note Guarantor, other than the Parent Guarantor, pursuant to the covenant described under "—Certain Covenants—Future Note Guarantors."

"Subsidized Loans" means loans or other Credit Facilities provided by any national or regional public authority in Spain or the European Union, and any guarantee to secure such loans or Credit Facilities.

"Telecommunications Business" means (i) the business of operating or owning a license, authorization or concession to operate a cable or telephone or telecommunications (including Internet) system or service principally in the European Union and (ii) any business reasonably related, ancillary or complementary thereto, *provided that* the determination of what constitutes a Telecommunications Business shall be made in good faith by the Board of Directors.

"Temporary Cash Investments" means any of the following:

- (a) Investments in European Government Obligations or Spanish Government Obligations maturing within 365 days of the date of acquisition thereof;
- (b) Investments in checking accounts, time deposit accounts, certificates of deposit and money market deposits maturing within 90 days of the date of acquisition thereof issued by a bank or trust company organized under the laws of the United States of America or any state thereof or any foreign country recognized by the United States of America having capital, surplus and undivided profits aggregating in excess of €500 million and whose long-term debt is rated "A-3" or "A-" or higher according to Moody's or S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act));
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) entered into with (i) a bank meeting the qualifications described in clause (b) above or (ii) any primary government securities dealer reporting to the Market Reports Division of the Federal Reserve Bank of New York;
- (d) Investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any Investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act) and
- (e) direct obligations (or certificates representing an ownership interest in such obligations) of any state of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of such state is pledged and which are not callable or redeemable at the issuer's option, *provided that* (i) the long-term debt of such state is rated "A-3" or "A-" or higher according to Moody's or S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)) and (ii) such obligations mature within 180 days of the date of acquisition thereof.

"Trust Indenture Act" means the U.S. Trust Indenture Act of 1939, as amended, or any successor statute, and the rules and regulations promulgated by the Commission thereunder.

"Unrestricted Subsidiary" means the Excluded Companies and any Subsidiary or Affiliate of the Company that is designated after the Issue Date as an Unrestricted Subsidiary as permitted or required pursuant to the covenant described under "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries" and not thereafter redesignated as a Restricted Subsidiary as permitted pursuant thereto.

"Valencia" means Valencia de Cable, S.A. and its successors.

"Valencia North" means Mediterránea Norte Sistemas de Cable, S.A. and its successors.

"Valencia South" means Mediterránea Sur Sistemas de Cable, S.A. and its successors.

"VAT Discounting Facility" means any credit facility with one or more financial institutions for the purpose of financing VAT receivables from the Spanish tax authorities.

"Voting Stock" of any Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means, at any time, a Restricted Subsidiary all the Voting Stock of which (except directors' qualifying shares) is at such time owned, directly or indirectly, by the Company and its other wholly owned Subsidiaries.

BOOK-ENTRY; DELIVERY AND FORM

General

Notes sold to qualified institutional buyers in reliance on Rule 144A will be represented by a global note in registered form without interest coupons attached (the "Rule 144A Global Note"). Notes sold to non-U.S. persons in reliance on Regulation S will be represented by a global note in registered form without interest coupons attached (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes"). The Global Notes will be deposited with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream Banking.

Ownership of interests in the Rule 144A Global Note ("Rule 144A Book-Entry Interests") and in the Regulation S Global Note (the "Regulation S Book-Entry Interests" and, together with the Rule 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream Banking, or persons that hold interests through such participants. Euroclear and Clearstream Banking will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream Banking and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream Banking, as applicable (or their respective nominees), will be considered the sole holders of Global Notes for all purposes under the Indentures. In addition, participants must rely on the procedures of Euroclear and/or Clearstream Banking, and indirect participants must rely on the procedures of Euroclear, Clearstream Banking and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indentures.

Neither the Issuer nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream Banking, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream Banking, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream Banking, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream Banking will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate; provided, however, that no Book-Entry Interest of €1,000 principal amount or less may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to the common depository or its nominee for Euroclear and Clearstream Banking, which will distribute such payments to participants in accordance with their customary procedures. The Issuer will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "Description of the Notes—Additional Amounts." If any such deduction or withholding is required to be made, then, to the extent described under "Description of the Notes—Additional Amounts" above, the Issuer will pay additional amounts as may be necessary in order that the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid in euro.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream Banking have advised us that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream Banking will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Indentures, each of Euroclear and Clearstream Banking reserves the right to exchange the Global Notes for definitive registered Notes in certificated form ("Definitive Registered Notes"), and to distribute Definitive Registered Notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream Banking will be effected in accordance with Euroclear and Clearstream Banking rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream Banking and in accordance with the procedures set forth in the Indentures governing the Notes.

The Global Note for Rule 144A Book-Entry Interests will have a legend to the effect set forth under "Notice to Investors." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indentures) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A or any other exemption (if available under the U.S. Securities Act).

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Definitive Registered Notes

Under the terms of the Indentures, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream Banking notifies us that it is unwilling or unable to continue to act as depository and a successor depository is not appointed by us within 120 days;

- if Euroclear or Clearstream Banking so requests following an Event of Default under the Indentures; or
- if the owner of a Book-Entry Interest requests such exchange in writing delivered through either Euroclear or Clearstream Banking following an Event of Default under the Indentures.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the Registrar or a Transfer Agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than €1,000 will be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

The Issuer will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (a) the record date for any payment of interest on the Notes, (b) any date fixed for redemption of the Notes or (c) the date fixed for selection of the Notes to be redeemed in part. Also, the Issuer is not required to register the transfer or exchange of any Notes selected for redemption. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indentures. We may require a holder to pay any taxes and fees required by law and permitted by the Indentures and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the office of a Transfer Agent, the Issuer will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee's and the Issuer's requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect the Issuer, the Trustee or the Paying Agent appointed pursuant to the Indentures from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by it in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased pursuant to the provisions of the Indentures, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indentures) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See "Transfer Restrictions."

So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, a notice of any issuance of Definitive Registered Notes will be published in a newspaper having general circulation in Luxembourg (which we expect to be the *Luxemburger Wort*). Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the paying agent in Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require.

Information Concerning Euroclear and Clearstream Banking

We understand as follows with respect to Euroclear and Clearstream Banking. Euroclear and Clearstream Banking hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream Banking provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream Banking interface with domestic securities markets. Euroclear and Clearstream Banking participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream Banking is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream Banking participant, either directly or indirectly.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences, under the tax laws of the country of which they are resident, of a purchase of Notes including, without limitation, the consequences of receipt of interest and premium, if any, and sale or redemption of the Notes or any interest therein.

The summaries set out below describe certain material U.S. federal income tax considerations of the acquisition, ownership and disposition of the Notes by a "U.S. Holder," as defined below, and certain material U.K. and Spanish tax consequences of the acquisition, ownership and disposition of the Notes. The statements regarding U.S. federal income, U.K. and Spanish tax laws and practices set forth below, including the statements regarding the U.S./U.K. double taxation convention relating to income and capital gains (the "U.S./U.K. Tax Treaty") assume that the Notes will be issued, and transfers thereof will be made, in accordance with the Indentures.

For purposes of the U.S. Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), U.S. Holders of Book-Entry Interests will be treated as owners of the Notes underlying such Book-Entry Interests and, except as noted below, the U.S. federal income tax consequences of owning Book-Entry Interests will be the same as those applicable to ownership of Notes.

EU Savings Directive

On June 3, 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from January 1, 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

United Kingdom Taxation

The following is a summary of the current law and practice in the U.K. relating to certain aspects of the U.K. taxation of the acquisition, ownership and disposal of the Notes as of the date hereof and does not purport to be comprehensive. It relates only to the position of the persons who are the absolute beneficial owners of their Notes and may not apply to special situations, such as those of dealers in securities. This summary does not deal with the position of individuals who hold the Notes. Furthermore, the discussion below is based upon the provisions of the U.K. tax laws and U.K. Inland Revenue practice as of the date hereof, and such provisions may be repealed, revoked or modified (possibly with retrospective effect) so as to result in U.K. tax consequences different from those discussed below. The following is a general guide and does not purport to be a complete analysis or listing of all the potential U.K. tax consequences of acquiring, owning or disposing of the Notes. It should therefore be treated with appropriate caution. Persons considering the purchase, ownership or disposition of Notes should consult their tax advisers concerning U.K. tax consequences in the light of their particular situations as well as any consequences arising under the law of any other relevant tax jurisdiction. No representations with respect to the tax consequences to any particular holder of Notes are made hereby.

Withholding Tax on Interest on the Notes

The Notes will be "quoted Eurobonds" provided they are and continue to be listed on a "recognized stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the Luxembourg Stock Exchange is currently so recognized). Accordingly, if the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of U.K. income tax.

In other cases, an amount on account of U.K. tax at the lower rate (currently 20%) may be withheld from interest payments, subject to such relief as may be available under the provisions of any applicable double taxation treaty.

Withholding Tax on Payments by the Guarantors

If any of the guarantors makes any payments in respect of interest on the Notes (or other amounts due under such Notes other than the repayment of amounts subscribed for the Notes) such payments may be subject to U.K. withholding tax at the lower or basic rate (currently 22%) subject to such relief as may be available under the provisions of an applicable double taxation treaty. Such payments by the guarantors may not be eligible for the "quoted Eurobond" exemption described above.

Provision of Information

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer, or any person in the U.K. acting on behalf of the Issuer (a "paying agent"), or is received by any person in the U.K. acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the U.K. Inland Revenue details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid

subject to withholding or deduction for or on account of U.K. income tax and whether or not the Noteholder is resident in the U.K. for U.K. taxation purposes. Where the Noteholder is not so resident, the details provided to the U.K. Inland Revenue may, in certain cases, be passed by the U.K. Inland Revenue to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes. For the above purposes, "interest" should be taken, for practical purposes, as including payments made by a guarantor in respect of interest on the Notes. These provisions may also apply, in certain circumstances, to payments made on a redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

Other Rules Relating to U.K. Withholding Tax on the Notes

Notes may be issued at an issue price of less than 100% of their principal amount. Any discount element on any such Notes will not be subject to any U.K. withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined above.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to U.K. withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of U.K. income tax, Noteholders who are not resident in the U.K. may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The above description of the U.K. withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

The references to "interest" above mean "interest" as understood in U.K. tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

Taxation by Direct Assessment of Noteholders

Notwithstanding that interest may be received subject to deduction of income tax, Noteholders who are resident in the U.K. for tax purposes or holders who are non-resident and carrying on a trade, profession or vocation in the U.K. through a branch, agency or permanent establishment, may be liable to pay further U.K. tax on the interest received.

Where the interest is paid without withholding or deduction, the interest will not be assessed to U.K. tax in the hands of holders of the Notes who are not resident for tax purposes in the U.K., except where such persons are carrying on a trade, profession or vocation in the U.K. through a branch, agency or permanent establishment in connection with which the interest is received or to which the Notes are attributable. In such a case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the U.K. branch, agency or permanent establishment.

Ownership and Disposal (including Redemption) of the Notes by U.K. Corporation Tax Payers

In general holders which are within the charge to U.K. corporation tax (other than authorized unit trusts) will be charged to or relieved from tax on all returns and fluctuations in value of the Notes broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with a mark-to-market or an accruals basis which is authorized for tax purposes under the U.K. "loan relationships" regime. Such holders will generally be charged to tax as income in each accounting period by reference to interest (and discount) accrued in that period and to any profit or gain (or entitled to relief for any loss) which, in accordance with such holders' authorized accounting method, is applicable to that period.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT") on the Notes

No U.K. stamp duty or SDRT is payable on the issue or transfer of the Notes. No U.K. stamp duty or SDRT is payable on any agreement for transfer of a Note.

Spanish Taxation

The following summary sets forth the main Spanish Tax consequences of the ownership and disposal of the Notes by a holder who beneficially owns the Notes and who is a corporation resident in Spain or a permanent establishment in Spain of a non-resident entity ("Spanish holder") and of the receipt of payments under the guarantees by a holder who is not a resident in Spain for tax purposes or subject to the Non-Resident Income Tax. The discussion below is based upon the provisions of the Spanish Tax Laws and the Spanish Tax Authorities practice as of

the date of offering, and such provisions and practice may be repealed, revoked or modified. Prospective investors considering the purchase, ownership or disposition of the Notes, should consult their tax advisers regarding the Spanish tax consequences in their particular circumstances.

Spanish Holders

Interest on the Notes. Under Spanish law, interest collected by a Spanish holder of the Notes is subject either to Corporate Income Tax ("*Impuesto sobre Sociedades*") or to Non-Resident's Income Tax ("*Impuesto sobre la Renta de No Residentes*"), as the case may be. In the event that such interest becomes subject to withholding tax in the U.K., as U.K. source income, Spanish resident corporations would be entitled to a tax credit for the avoidance of double taxation when determining tax liability, in accordance with the provisions of the Treaty for the avoidance of double taxation executed between Spain and the U.K. (the "Spain/U.K. Tax Treaty"). In addition, in accordance with the Non-Resident Income Tax Law, permanent establishments in Spain would also be eligible for a tax credit as to avoid double taxation.

Disposal of the Notes. As a general rule, a disposal of the Notes by a Spanish holder may give rise to a taxable income or an allowable loss for the purposes of either Corporate Income Tax or Non-Resident's Income Tax, as the case may be. Some restrictions, however, may apply based on the nature of the permanent establishment.

The profit or loss arising from the disposal of the Notes for a Spanish holder shall be subject to either the Corporate Income Tax or to the Non-Resident's Income Tax, as the case may be, at the relevant applicable tax rates.

Should for any reason a Spanish resident corporation be subject to tax in the U.K. on the income it obtains upon the disposal of the Notes it will be entitled to a tax credit for the avoidance of double taxation in accordance with the provisions of the Spain/U.K. Tax Treaty. Moreover, permanent establishments in Spain are eligible for a tax credit under the Non-Resident Income Tax Law so as to avoid double taxation.

Expenses of Transfer. The transfer of the Notes will be exempt in Spain from any Transfer Tax ("*Impuesto sobre Transmisiones Patrimoniales*") or Value Added Tax. Additionally, no Stamp Duty will be levied on such transfers.

Spanish Withholding Tax on the Notes. No withholding on account of Spanish taxes will be levied in Spain on any income arising from Notes held by a Spanish holder if the Notes are traded on an OECD country official stock market. If the Notes are listed on the Luxembourg Stock Exchange, income deriving from the Notes will qualify for this exemption. However, the financial institution (if resident in Spain or acting through a permanent establishment in Spain) acting as paying agent or intervening in any transfer, redemption or refund of the Notes will be obliged to calculate the taxable income of the Spanish holder arising from the relevant transaction and to report such income to the Spanish holder and to the Spanish tax authorities. In addition, the financial institution must provide the Spanish tax authorities with information regarding the persons participating in the transaction.

If the Notes are not traded on an OECD country official stock market and the Notes are deposited with or managed by a financial institution resident in Spain, or acting through a permanent establishment in Spain, in accordance with the tax laws in force, the financial institution, acting as depositary or manager of such Notes, will be responsible for making the relevant Spanish withholding on account of tax on any payment to a Spanish holder deriving from the Notes. It should be noted that the financial institution acting as custodian or manager may become obliged to comply with the formalities contained in the Spanish Corporate Income Tax Regulations (approved by Royal Decree 537/1997, of April 18, as amended) when intervening in the repayment and/or transfer of the Notes.

In spite of these rules, there can be no assurance that the Spanish tax authorities will not take the view that income deriving from the Notes should, in any case, be subject to withholding tax at the rate of 15%. If such withholding were imposed, a Spanish holder would not be entitled to the payment of Additional Amounts because the withholding tax would be imposed as a result of the connection between the holder and the Kingdom of Spain. See "Description of the Notes—Additional Amounts" for more information on ONO Finance's and Cableuropa's obligation to pay Additional Amounts.

Payments Under the Guarantee

In the opinion of Clifford Chance Limited Liability Partnership, Spanish counsel to ONO Finance, Cableuropa and the other guarantors, payments made to Non-Spanish holders under the guarantees by the Spanish guarantors should not be subject to taxation in Spain. However, it is possible that the Spanish tax authorities could take the position that payments made under the guarantees to Non-Spanish holders would be subject to withholding tax at a rate of 15%, subject to possible reduction or elimination by an applicable treaty for the avoidance of double taxation. However, in the case of Non-Spanish holders who are resident of EU member states, other than those operating through a permanent establishment in Spain or who hold the Notes through a tax haven jurisdiction within the meaning of Spanish law (currently as set forth in Royal Decree 1080/1991 of July 5th), the withholding tax would not be imposed if any such holder submitted the relevant certificate of tax residency issued by the competent tax authority of the holder's country of jurisdiction demonstrating that the holder is a resident in that jurisdiction when the payment under the guarantees is due and payable. Such certificate will have a validity of one year from issuance. Non-Spanish holders who are able to

reduce or eliminate the withholding tax by providing a certificate of residency as mentioned above would not be entitled to receive Additional Amounts from ONO Finance or Cableuropa to the extent that the withholding tax was imposed as a result of their failure to provide such a certificate. See "Description of the Notes—Additional Amounts" for more information on ONO Finance's and Cableuropa's obligation to pay Additional Amounts.

United States Taxation

General

The following summary contains a description of certain U.S. federal income tax considerations of the purchase, ownership and disposition of the Notes acquired for cash at original issuance at a price equal to their issue price (the first price at which a substantial part of the Notes are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). This summary is not a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the Notes. In particular, this summary of U.S. federal income tax matters deals only with holders that will hold the Notes as capital assets for U.S. federal income tax purposes (generally, assets held for investment) and does not address special tax situations, such as the U.S. federal income tax treatment of holders that are (i) subject to special tax rules (e.g., financial institutions, banks, securities or currency dealers, brokers, insurance companies, regulated investment companies, tax-exempt organizations, securities traders that elect mark-to-market tax accounting, certain U.S. expatriates and persons subject to alternative minimum tax), (ii) holding Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction or (iii) "U.S. Holders" (as defined below) with a currency other than the U.S. dollar as their functional currency.

This summary is based upon the Code, the Treasury regulations issued thereunder and official interpretations thereof, each as in effect on the date hereof, all of which are subject to change or differing interpretations, possibly with retroactive effect. Prospective purchasers of the Notes should consult their own tax advisers as to the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, in addition to the effect of any state or local tax laws or tax laws of any jurisdiction other than the United States.

As used herein, a "U.S. Holder" means a beneficial owner who is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States or of any State (including the District of Columbia), (ii) a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or of any State, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source and (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons (as defined in the Code) have the authority to control all substantial decisions of the trust or if the trust has made a valid election under Treasury regulations to be treated as a U.S. person. A "Non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder. If an entity treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds Notes, the Holder is urged to consult its own tax adviser regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

Tax Treatment of the Notes

Classification of the Notes. This summary is based upon the assumption that the Notes will be characterized as indebtedness for U.S. federal income tax purposes. Prospective purchasers should recognize, however, that there is some uncertainty regarding the appropriate characterization of instruments such as the Notes, and no rulings have been or will be sought from the IRS with respect to the appropriate characterization of the Notes for U.S. federal income tax purposes. It is possible that the IRS might contend that the Notes should be treated not as indebtedness but as equity in ONO Finance. Any such recharacterization might result in material adverse consequences to U.S. Holders of the Notes, including possible application of the passive foreign investment company ("PFIC") rules. In the event that the PFIC rules apply to the Notes, a U.S. Holder would be required to pay an interest charge together with tax calculated at maximum ordinary income rates on gain realized on the disposition of a Note or on certain increased interest payments with respect to a Note. Prospective purchasers of the Notes should consult their own tax advisers about the consequences in the event that the Notes are treated as equity for U.S. federal income tax purposes.

Stated Interest. Stated interest on the Notes will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with such U.S. Holder's usual method (cash or accrual) of tax accounting.

In the case of stated interest received on a Note, the amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the stated interest payment, based on the "spot rate" in effect on the date of receipt. Spot rate generally means a rate that reflects a fair market rate of exchange available to the public for euro under a "spot contract" in a free market and involving representative amounts. A spot contract is a contract to buy and sell a euro on or before two business days following the date of execution of the contract. If such spot rate cannot be demonstrated, the IRS has authority to determine the spot rate.

The amount of stated interest recognized by an accrual basis U.S. Holder of a Note will be determined for any accrual period in euro and

then translated into U.S. dollars using the average U.S. dollar-euro exchange rate in effect for the accrual period (or, with respect to an accrual period that spans two taxable years, using the average exchange rate for the partial period within each taxable year). The average rate for an accrual period (or partial period) is the simple average of the spot rates for each business day of such period, or other average exchange rate for the period reasonably derived and consistently applied by the Holder. Alternatively, an accrual basis U.S. Holder can elect to translate stated interest at the spot rate on the last day of the accrual period (and, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or on the date the interest payment is received if such date is within five business days of the end of the accrual period. A U.S. Holder that makes such an election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Sale and Redemption of Notes. A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other disposition of a Note in an amount equal to the difference between the U.S. dollar value of the amount realized upon such sale, exchange, retirement or other disposition (other than amounts attributable to accrued and unpaid interest, which will be taxable as ordinary interest income, as described above), and such U.S. Holder's adjusted tax basis in the Note. For this purpose, an amount received in euro will be translated into U.S. dollars at the spot rate in effect on the date of disposition of the Notes. If the Notes are traded on an established securities market, a cash basis Holder (and, if it elects, an accrual basis Holder) will determine the U.S. dollar equivalent of the amount realized on the sale of a Note by translating that amount at the spot rate in effect on the settlement date. A U.S. Holder's adjusted tax basis in a Note generally will equal the issue price of such Note (translated into U.S. dollars at the spot rate in effect on the date of such U.S. Holder's purchase of the Notes or the settlement date, if the Notes are traded on an established securities market as discussed above). Any gain or loss (other than foreign currency gain or loss described below) will be capital gain or loss and generally will be long-term capital gain or loss if the Note is held for more than one year. Under current law, net long-term capital gains of a noncorporate U.S. Holder are, under certain circumstances, taxed at lower U.S. federal income tax rates than are items of ordinary income. The deductibility of capital losses by a U.S. Holder, however, is subject to significant limitations.

Taxation of Additional Amounts. If Additional Amounts are required to be paid in respect of withholding or deduction for taxes imposed on payments on the Notes (see "Description of the Notes—Additional Amounts"), such Additional Amounts should be taxable to a U.S. holder as ordinary income at the time such amounts are accrued or received, in accordance with such U.S. Holder's regular method of accounting. In such event, the amount taxable to such U.S. Holder would include all taxes withheld or deducted in respect of the Notes. Thus, a U.S. Holder would be required to report income in an amount greater than the cash it receives in respect of payments on the Notes. However, a U.S. Holder may, subject to certain limitations, be eligible to claim as a credit or deduction the foreign taxes withheld or deducted for purposes of computing its U.S. federal income tax liability.

It is possible, however, that the IRS might require each U.S. Holder to include Additional Amounts in gross income as such amounts accrue over the life of the Notes (in advance of the payment of such Additional Amounts). In such case, it is unclear whether a U.S. Holder would be entitled to claim a credit or deduction for the foreign taxes giving rise to the Additional Amounts until the taxes are actually deducted or withheld. If a U.S. Holder is required to accrue Additional Amounts and not allowed a credit or deduction for the foreign taxes giving rise to the amounts until the taxes are paid, the U.S. Holder may have insufficient foreign source income in the year in which the foreign taxes are actually deducted or withheld to enable it to claim a foreign tax credit with respect to the foreign taxes.

Foreign Currency Gain or Loss. U.S. holders of the Notes will realize foreign currency gain or loss, which generally will be treated as ordinary income or loss, as the case may be, upon the receipt of payments on the Notes and upon the sale, exchange, retirement or other disposition of the Notes, and the realized foreign currency gain or loss generally will be recognized in accordance with applicable provisions of the Code. Generally, the amount of foreign currency gain or loss realized with respect to payments of interest will be equal to the difference between (x) the euro amount received as translated into U.S. dollars using the spot rate on the date of receipt, and (y) the U.S. dollar amount previously included in income in respect of the payment. The amount of foreign currency gain or loss realized with respect to payments of principal will be equal to the difference between (x) the euro amount of principal received as translated into U.S. dollars using the spot rate on the date of receipt, and (y) the euro amount of principal translated into U.S. dollars using the spot rate on the date the Note was acquired. However, the amount of any foreign currency gain or loss realized upon a sale, exchange, retirement or disposition of a Note with respect to interest and principal shall be limited to the total amount of gain or loss, as the case may be, realized on the transaction.

Foreign Tax Credit

For U.S. foreign tax credit purposes, stated interest, and any Additional Amounts with respect to a Note will be treated as foreign-source income and, with certain exceptions, will be treated separately, together with other items of "passive" income or, in certain cases, "financial services" income for purposes of computing any foreign tax credit allowance under U.S. federal income tax laws.

Gain or loss realized on the sale, exchange, retirement or other disposition of a Note (including foreign currency gain or loss) generally will be treated as U.S.-source income or loss for foreign tax credit purposes.

Non-U.S. Holders

Subject to the discussion of "backup withholding" below, a Non-U.S. Holder is currently exempt from U.S. federal income tax with respect to interest on the Notes unless the Non-U.S. Holder is, among other things, an individual or corporation that has an office or other fixed place of business in the United States to which the interest is attributable and the interest is derived in the active conduct of a banking, financing or similar business within the United States or is received by a corporation the principal business of which is trading in stock or securities for its own account. In addition, subject to the discussion of backup withholding below, a Non-U.S. Holder will not be subject to U.S. federal income tax on any gain on a sale or other disposition of a Note unless (a) the Holder is an individual who is present in the United States for 183 days or more during the taxable year and certain other conditions are met or (b) the gain is effectively connected with the conduct of a trade or business within the United States (and, if a treaty applies, the gain is generally attributable to a U.S. permanent establishment maintained by such Non-U.S. Holder).

Tax Return Disclosure and Investor List Requirements

Treasury regulations (the "Tax Shelter Regulations") intended to address tax shelters and other potentially tax-motivated transactions require participants in a "reportable transaction" to disclose certain information about the transaction in IRS Form 8886 and retain information relating to the transaction. Organizers and sellers of reportable transactions are required to maintain lists identifying the transaction investors and furnish to the IRS upon demand such investor information as well as detailed information regarding the transactions. A transaction may be a "reportable transaction" based upon any of several indicia, including the existence of confidentiality agreements, certain indemnity arrangements, potential for recognizing investment or other losses, significant book-tax differences, a brief asset holding period, and whether the transaction is a listed transaction. In addition, the Tax Shelter Regulations could be interpreted to cover and require reporting of transactions that are generally not considered tax shelters, including certain foreign currency transactions. Currently, legislative proposals are pending in Congress that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. Prospective Purchasers of the Notes should consult their own tax advisers concerning any possible disclosure obligation with respect to their investment and should be aware that ONO Finance and other participants in the transaction intend to comply with the disclosure and list maintenance requirements under the Tax Shelter Regulations as they determine apply to them with respect to this transaction.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments within the United States of stated interest and Additional Amounts on the Notes, including payments made by the U.S. office of a paying agent, broker or other intermediary, and to proceeds of a sale, redemption or other disposition of the Notes through a U.S. branch of a U.S. or foreign broker. A backup withholding tax at a current rate of 28% may apply to such payments or proceeds if the beneficial owner fails to provide a correct taxpayer identification number (generally on IRS Form W-9) or, in the case of payments of stated interest or Additional Amounts, fails to certify on such form that it is not subject to such withholding or fails to report interest and dividend income in full. Payments of principal or proceeds from the disposition of Notes by or through a foreign office of a U.S. or foreign broker with certain relationships with the United States generally will be subject to information reporting but not backup withholding. Non-U.S. Holders generally will not be subject to information reporting or backup withholding. However, these Holders may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner will be allowed as a refund or credit against such beneficial owner's U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

ERISA AND OTHER CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including on entities that are deemed to hold the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, without limitation, the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investment be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties under ERISA and the Code.

Governmental plans and certain church and other plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or other federal or foreign laws or regulations that are substantially similar to ERISA and the Code ("Similar Law"). Fiduciaries of any such plans should consult with their counsel before purchasing any Notes to determine the need for, and the availability, if necessary, of any exemptive relief under any such Similar Law.

In analyzing these issues with your own counsel, prospective purchasers of the Notes, including, without limitation, Plan fiduciaries, should consider, among other things, that, although the Notes are debt for federal income tax purposes, see "Taxation—United States Taxation," it is not clear whether the Notes would be treated as issued by ONO Finance, Cableuropa, or another entity related to ONO Finance or Cableuropa. The Notes should not be purchased or held by any Plan fiduciary, unless such purchase and holding would be exempt from the prohibited transaction restrictions of ERISA and the Code or any provisions of Similar Law, and would not violate an applicable requirement contained in ERISA and the Code or in any Similar Laws.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes are acquired by a Plan with respect to which any of ONO Finance, the guarantors or the Managers or any of their respective affiliates are a party in interest or a disqualified person. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold Notes on behalf of a Plan, Prohibited Transaction Class Exemption ("PTCE") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 95-60 (relating to investments by an insurance company general account), PTCE 96-23 (relating to transactions directed by an in-house asset manager) or PTCE 90-1 (relating to investments by insurance company pooled separate accounts) (collectively, the "Class Exemptions") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. There can be no assurance that any of the Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes, or that, if a Class Exemption or another exemption is available, it will cover all aspects of any particular transaction. By its purchase of any Notes, whether in the case of the Manager or in the case of a subsequent transfer, the purchaser thereof will be deemed to have represented and agreed either that (i) it is not and for so long as it holds Notes will not be a ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan, or a governmental or other employee benefit plan which is subject to Similar Laws, or (ii) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other Plan, any such Similar Law) for which an exemption is not available.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary who proposes to cause a Plan to purchase any Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code or other Similar Law to such an investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA, the Code or other Similar Law.

The sale of Notes to a Plan is in no respect a representation by ONO Finance, the guarantors or the Managers that such an investment meets all relevant requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

EACH PLAN FIDUCIARY (AND EACH FIDUCIARY FOR A GOVERNMENTAL OR CHURCH PLAN SUBJECT TO SIMILAR LAW) SHOULD CONSULT WITH ITS LEGAL ADVISOR CONCERNING THE POTENTIAL CONSEQUENCES TO THE PLAN UNDER ERISA, THE CODE OR SIMILAR LAWS OF AN INVESTMENT IN ANY OF THE NOTES.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each Manager has agreed to purchase, and ONO Finance has agreed to sell to each Manager, the Notes.

The purchase agreement provides that the obligations of the Managers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Managers must purchase all the Notes if they purchase any of the Notes.

We have been advised that the Managers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum within the United States to "Qualified Institutional Buyers" (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Notice to Investors." The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. See "Notice to Investors."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the U.S. Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Each Manager has represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any Notes included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any Notes included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us;
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes included in this offering in, from or otherwise involving the United Kingdom;
- the offer and sale of the Notes in the Federal Republic of Germany may be made only in accordance with the provisions of the Securities Sales Prospectus Act of the Federal Republic of Germany (*Wertpapierverkaufsprospektgesetz*);
- it will not offer the Notes or cause the offering of the Notes to the public in Luxembourg unless all of the relevant legal and regulatory requirements have been met;
- the offer in The Netherlands of the Notes included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises);
- the offer and sale of the Notes in France will only be made to qualified investors, in accordance with Article L.411-2 242 of the *Code Monétaire et Financier* and *Decree* No. 98-880, dated October 1, 1998, as amended;
- the offer and sale of the Notes in Spain may not be made except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1998 de 28 de julio, del mercado de valores*), as amended, and Royal Decree 291/1992, on Issues and Public Offerings of Securities (*Real Decreto 291/92, de 27 de marzo, sobre emisiones y ofertas públicas de valores*), as amended; and
- the Notes may not be offered, sold or delivered in Italy except to professional investors (*operatori qualificati*), as defined in Article 31.2 of CONSOB Regulation No. 11522 of July 1, 1998.

The Notes will constitute a new class of securities with no established trading market. Application has been made to list the Notes on the Luxembourg Stock Exchange. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Managers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by the U.S. Securities Act and the Exchange Act and may be limited. Accordingly, we cannot assure you as to the liquidity of or the trading market for the Notes.

In connection with this offering, the Managers may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves sales of Notes in excess of the principal amount of Notes to be purchased by the Managers in this offering, which creates a short position for the Managers. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Managers may conduct these transactions in the over-the-counter market or otherwise. If the Managers commence any of these transactions, they may discontinue them at any time.

We have agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Managers may be required to make because of any of those liabilities. Other Relationships Affiliates of the Managers are lenders under our senior credit facilities. See "Description of Other Indebtedness." A subsidiary of Bank of America Corporation is a significant

shareholder of GCO and its representative is a director of GCO. Furthermore, an affiliate of Bank of America Corporation is the lead dealer manager of the tender offer by ONO Finance for the Existing Notes. In addition, the Managers and their affiliates have performed commercial and investment banking and advisory services for us from time to time for which they have received customary fees and expenses. Moreover, they may, from time to time, engage in transactions with, and perform services for, us in the ordinary course of their business.

GCO, our corporate parent, has informed the Managers that it has purchased €35 million aggregate principal amount of the Fixed Rate Notes. In addition, GCO has tendered an aggregate principal amount of € 30 million 2011 Notes in the Tender Offer described under "Summary—The Refinancing Transactions." GCO has further agreed that for a period of 90 days from the date of this offering memorandum, it will not, without the prior written consent of the Managers, offer, pledge, sell or otherwise dispose of any Notes acquired by GCO in connection with this offering.

NOTICE TO INVESTORS

The Notes have not been registered under the U.S. Securities Act, or any U.S. state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to "Qualified Institutional Buyers" (as defined in Rule 144A) in reliance on Rule 144A and in offshore transactions in reliance on Regulation S.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with us, the Issuer and the Managers as follows:

1. It understands and acknowledges that the Notes have not been registered under the Securities Act or any other applicable securities law, are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities law, including sales pursuant to Rule 144A, and may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
2. It is not an "affiliate" (as defined in Rule 144 under the U.S. Securities Act) of ours or acting on our behalf and it is either:
 - (i) a Qualified Institutional Buyer, or QIB, within the meaning of Rule 144A and is aware that any sale of Notes to it will be made in reliance on Rule 144A, of which the acquisition will be for its own account or for the account of another QIB; or
 - (ii) an institution that, at the time the offer to purchase the Notes was made and at the time the buy order for the Notes was originated, was outside the United States within the meaning of Regulation S.
3. It acknowledges that neither we nor the Issuer, nor the Managers, nor any person representing us, the Issuer or the Managers, has made any representation to it with respect to the offering or sale of any Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase any of the Notes.
4. It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property of the property of such investor's account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act.

Each holder of Notes issued in reliance on Rule 144A ("Rule 144A Notes") agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date that is two years after the later of the date (the "Resale Restriction Termination Date") of the original issue and the last date on which the issuer or any of our affiliates was the owner of such Notes (or any predecessor thereto) only (i) to the Issuer, (ii) pursuant to a registration statement that has been declared effective under the Securities Act, (iii) for so long as the Notes are eligible pursuant to Rule 144A, to a person it reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (iv) pursuant to offers and sales that occur outside the United States in

compliance with Regulation S or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor's account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (v) to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the other side of the security is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. Each purchaser acknowledges that each Rule 144A Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT. THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR'S ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THE FOREGOING RESTRICTIONS ON RESALE WILL NOT APPLY SUBSEQUENT TO THE RESALE RESTRICTION TERMINATION DATE.

5. It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes.
6. It acknowledges that until 40 days after the commencement of the offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.
7. It acknowledges that the Trustee will not be required to accept for registration of transfer any Notes except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set forth therein have been complied with.

It acknowledges that we, the Issuer, the Managers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.

NOTICE TO NON-U.S. INVESTORS

The Notes are being offered exclusively to persons who trade or invest in securities in the conduct of their profession or trade, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises that, as an ancillary activity, regularly invest in securities.

The United Kingdom

In the United Kingdom, the Notes will only be available for subscription pursuant to the offering by persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which do not, and will not, constitute an offer to the public in the United Kingdom for purposes of the Public Offers of Securities Regulations 1995 or the Financial Services and Markets Act 2000. This offering memorandum is directed only at persons who (i) are outside the United Kingdom; or (ii) fall within Article 19(5) (Investment professionals, being persons having professional experience in matters relating to investments) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001; or (iii) fall within Article 49(2) (high net worth companies, unincorporated associations, etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to together as the "relevant persons"). This offering memorandum must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

Germany

The Notes may be offered and sold in the Federal Republic of Germany only in accordance with the provisions of the Securities Sales Prospectus Act of the Federal Republic of Germany (*Wertpapier-verkaufsprospektgesetz*) and any other applicable German law. Consequently, in Germany, the Notes will only be available to persons who by profession or by trade business buy or sell securities for their own or a third party's account.

Luxembourg

The Notes are not offered to the public in Luxembourg and each Manager has represented and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the Notes to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been fulfilled. In particular, this offer has not been and will not be announced to the public and offering material will not be made available to the public. A listing of the Notes on the Luxembourg Stock Exchange does not imply that a public offering in Luxembourg has been authorized.

The Netherlands

The Notes (including rights representing an interest in a Note in global form) may only be offered or sold in The Netherlands, as part of their initial distribution or as part of any re-offering, and this offering memorandum may only be distributed and circulated, and any offer of these Notes shall only be announced in writing (whether electronically or otherwise) in The Netherlands, to individuals or legal entities who or which trade in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organizations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities). Each of the Managers undertakes with ONO Finance and the guarantors that it will be made clear upon making any such offers and from any and all documents or advertisements in which the forthcoming offering of these Notes is announced that the offer is exclusively made to the said individual or legal entities in The Netherlands.

France

In France, the Notes may not be directly or indirectly offered or sold to the public, and offers and sales of the Notes will only be made in France to qualified investors, in accordance with Article L.411-2 of the *Code Monétaire et Financier*, and Decree No.98-880 dated October 1, 1998, as amended. This offering memorandum has not been submitted to the *Autorité des marchés financiers*. Neither this offering memorandum nor any other offering material may be distributed to the public in France.

Spain

The Notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1988, de 28 de julio, del Mercado de Valores*), as amended and restated, and Royal Decree 291/1992, on issues and public offerings for the sale of securities (*Real Decreto 291/1992, de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores*), as amended and restated, and the decrees and regulations made thereunder. The Notes may not be sold, offered or distributed to persons in Spain except (i) in circumstances which do not constitute an offer of securities in Spain within the meaning of Spanish Securities Market Law and further relevant legislation or (ii) pursuant to Article 7 of Royal Decree 291/1992 and subject to compliance with the registration requirements set out therein. This offering memorandum has not been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore it is not intended for the offering or sale of the Notes in Spain.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("*CONSOB*") pursuant to Italian securities legislation and, accordingly, the sales of the Notes in the Republic of Italy shall only be carried out in compliance with the requirements of Legislative Decree No. 58 of February 24, 1998, as amended ("*Legislative Decree No. 58*"), Legislative Decree No. 385 of September 1, 1993 (the "*Banking Law*"), and the relevant implementing regulations, and shall in any event be effected in accordance with all relevant Italian securities, tax and exchange controls and other applicable laws and regulations and in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy. In any case, the Notes will not be sold, either in the primary or in the secondary market, to individuals residing in the Republic of Italy. In addition, to the extent that any Notes are sold to institutional investors in the Republic of Italy, the minimum amount of such Notes shall be € 100,000.

Canada

The distribution of the Notes in Canada is being made on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the Notes are made. Any resale of the Notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require such resale to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Prospective purchasers are advised to seek legal advice prior to any resale of the Notes.

By purchasing the Notes in Canada and accepting a purchaser confirmation, a purchaser is representing to us and the dealer from whom the purchaser confirmation is received that: (a) the purchaser is entitled under applicable provincial securities laws to purchase the Notes without the benefit of a prospectus qualified under those securities laws; (b) where required by law, the purchaser is purchasing as principal and not as agent; and (c) the purchaser has reviewed the content of this offering memorandum.

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws. Following a decision of the U.S. Supreme Court, it is possible that Canadian purchasers will not be able to rely upon the remedies set out in Section 12(a)(2) of the Securities Act where securities are being offered under a U.S. private placement memorandum such as this document.

Canadian purchasers of Notes should consult their own legal and tax advisers with respect to the tax consequences of an investment in the Notes in their particular circumstances and about the eligibility of the Notes for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

The validity of the Notes, the guarantees and certain other matters relating to the offering will be passed upon for ONO Finance and the ONO Group by Clifford Chance Limited Liability Partnership (with respect to matters of New York, United States Federal, English and Spanish law). Certain legal matters relating to the offering will be passed upon for the Managers by Shearman & Sterling LLP (with respect to New York, United States Federal and English law) and Uría & Menéndez (with respect to Spanish law).

INDEPENDENT AUDITORS

Our consolidated financial statements as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 included in this offering memorandum have been audited by PricewaterhouseCoopers Auditores, S.L., independent auditors as stated in their report appearing herein.

The financial statements for ONO Finance as of December 31, 2002 and 2003 and for the years ended December 31, 2001, 2002 and 2003 included in this offering memorandum have been audited by PricewaterhouseCoopers LLP, independent auditors as stated in their report appearing herein.

SERVICE OF PROCESS AND ENFORCEMENT OF LIABILITIES

ONO Finance is incorporated as a public limited company with limited liability in England and the guarantors are incorporated with limited liability in Spain, as applicable. A majority of the directors and executive officers of ONO Finance and the guarantors are non-residents of the United States and all or a substantial portion of the assets of ONO Finance, the guarantors and such directors and executive officers are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon ONO Finance, the guarantors or such directors and executive officers or to enforce against any of them judgments obtained in U.S. courts predicated upon the civil liability provisions of the Federal securities laws of the United States. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon U.S. securities laws.

ONO Finance has been advised by its legal counsel in England, Clifford Chance Limited Liability Partnership, that there is a doubt as to the enforceability of certain civil liabilities under U.S. federal securities laws in original actions in English courts, and that, subject to certain exemptions and time limitations, English courts will treat a final and conclusive judgment of a U.S. court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts. The guarantors have been advised by their legal counsel in Spain, Clifford Chance Limited Liability Partnership, that there is a doubt as to the enforceability in Spain, in original actions in English courts or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated upon the federal securities laws of the United States.

ONO Finance and the guarantors have agreed that any suit, action or proceeding arising out of or based upon the Indentures, the Notes or the guarantees may be instituted in any Federal or state court located in New York City, and ONO Finance and the guarantors have appointed CT Corporation System as their agent for service of process in any such suit, action or proceeding.

GENERAL INFORMATION

1. The address of ONO Finance is 10 Upper Bank Street, London, E14 5JJ. The address of Cableuropa is Edificio Belagua, Calle Basauri 7-9, Urbanización La Florida, 28023 Aravaca, Madrid, Spain.
2. ONO Finance was incorporated on August 20, 1998 under the laws of England and Wales as a public limited company with registered number 3619149 with the name Ballardway Plc. ONO Finance's name was changed to ONO Plc by a special resolution dated December 8, 1998 and from ONO Plc to ONO Finance Plc by a special resolution dated January 7, 1999. Cableuropa was incorporated on June 2, 1992, under the laws of Spain under public deed number 1868, before the Public Notary of Bilbao, D. José María Arriola Arana and registered in the Companies Register of Bilbao on October 20, 1992 and later in the Companies Register of Madrid on February 23, 1995, under the name Cableuropa, S.A.
3. Application has been made to list the Notes on the Luxembourg Stock Exchange. In connection therewith, the Articles of Association of ONO Finance and a legal notice relating to the issue of the Notes will be deposited prior to listing with the Trade and Companies Register (*Registre de Commerce et des Sociétés*) in Luxembourg where copies may be obtained on request. Notice of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg newspaper of general circulation. The Luxembourg Stock Exchange will be informed and a notice will be published in a Luxembourg newspaper in the event of any change in the rate of interest payable on the Notes (no later than the commencement of such accrual). Copies of this offering memorandum will be made available at the office of The Bank of New York (Luxembourg), S.A., as paying agent, where they may be obtained free of charge upon request.
4. Throughout the term of the Notes and from the date hereof, copies of the Articles of Association of ONO Finance and Cableuropa, the Indentures (incorporating forms of the Global Notes) may be inspected and the most recent annual reports and accounts (containing Cableuropa's audited annual consolidated financial statements), the most recent quarterly unaudited interim consolidated financial statements of Cableuropa and the most recent audited annual financial statements of ONO Finance may be obtained free of charge at the office of The Bank of New York, the Paying Agent in Luxembourg. Cableuropa does not currently publish non-consolidated financial statements.
5. The Indentures have been approved and Notes will be issued thereunder pursuant to authority granted by the Board of Directors of Cableuropa on March 25, 2004, by the other Subsidiary Guarantors on April 15, 2004 and by the Board of Directors of ONO Finance on May 7, 2004.
6. Except as disclosed in this offering memorandum, since December 31, 2003 there has been no material adverse change in the consolidated financial position of ONO Finance, or the ONO Group.
7. Except as disclosed in this offering memorandum, neither ONO Finance nor Cableuropa is involved in, nor has any knowledge of a threat of, any litigation, administrative proceedings or arbitration which is or may be material in the context of the issue of the Notes and the

guarantees.

8. Clearing Information

The Floating Rate Notes sold pursuant to Regulation S and the Floating Rate Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream Banking under common codes 019259188 and 019259226, respectively. The ISIN for the Floating Rate Notes sold pursuant to Regulation S is XS0192591880 and the ISIN for the Floating Rate Notes sold pursuant to Rule 144A is XS0192592268.

The Fixed Rate Notes sold pursuant to Regulation S and the Fixed Rate Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream Banking under common codes 019259242 and 019259293, respectively. The ISIN for the Fixed Rate Notes sold pursuant to Regulation S is XS0192592425 and the ISIN for the Fixed Rate Notes sold pursuant to Rule 144A is XS0192592938.

9. Notices relevant to holders of the Notes will be available on the SEC's website at www.sec.gov under filings for Cableuropa or ONO Finance, as the case may be, as well as delivered to the Trustee and published in a daily leading newspaper with general circulation in Luxembourg (expected to be the *Luxemburger Wort*).

WHERE YOU CAN FIND MORE INFORMATION

Each purchaser of Notes from the Managers will be furnished with a copy of this offering memorandum and, to the extent provided to the Managers by ONO Finance for such purpose, any related amendment or supplement to this offering memorandum. Each person receiving this offering memorandum and any such amendment or supplement acknowledges that (i) such person has been afforded an opportunity to request from ONO Finance and the ONO Group and to review, and has received from ONO Finance and the ONO Group, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein; (ii) such person has not relied on the Managers or any person affiliated with the Managers in connection with its investigation of the accuracy of such information or its investment decisions; and (iii) except in each case as provided pursuant to (i) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein, and if given or made, such other information or representation should not be relied upon as having been authorized by ONO Finance, the ONO Group or the Managers.

ONO Finance and Cableuropa currently file reports and other information with the SEC in accordance with the Exchange Act. The reports and other information can be inspected and copied at the public reference facilities that the SEC maintains at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and on the Internet at www.sec.gov. Copies of these materials can be obtained at prescribed rates from the Public Reference Section of the SEC at the principal offices of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. As foreign private issuers, each of ONO Finance, Cableuropa and the guarantors are exempt under the Exchange Act from, among other things, the rules under the Exchange Act prescribing certain disclosure and the procedural requirements for proxy solicitations, and their officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act with respect to their purchases and sales of shares. Each of ONO Finance and Cableuropa has agreed that, if it is not subject to the informational requirements of Sections 13 or 15(d) of the Exchange Act at any time while the Notes constitute "restricted securities" within the meaning of the U.S. Securities Act, it will furnish to holders and beneficial owners of the Notes and to prospective purchasers designated by such holders the information required to be delivered pursuant to Rule 144A(d)(4) under the U.S. Securities Act to permit compliance with Rule 144A in connection with permitted resales of the Notes.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Cableuropa, S.A.U.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of profit and loss, statements of source and application of funds and of changes in shareholders' equity present fairly, in all material respects, the financial position of Cableuropa, S.A.U. and its subsidiaries as of December 31, 2003 and 2002, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in Spain. These consolidated financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in Spain and in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Spain vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 29 to the financial statements.

PricewaterhouseCoopers Auditores, S.L.
 Madrid, Spain
 April 1, 2004

CABLEUROP, S.A.U. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2003 AND 2002 (In Euro thousand)

	<u>Note</u>	<u>As of December 31,</u>	
		<u>2003</u>	<u>2002</u>
ASSETS			
Current assets			
Cash		1,315	1,258
Short term investments, net	4	24,753	50,807
Accounts receivable, net.....	5	52,860	187,896
Other current assets.....		1,813	5,706
Total current assets		80,741	245,667
Fixed Assets			
Start-up costs, net.....	6	8,767	13,766
Intangible assets, net.....	7	121,443	139,374
Tangible assets, net.....	8	1,295,143	1,202,396
Financial assets.....	9	331,538	313,744
Goodwill on consolidation	10	226,543	239,933
Deferred expenses, net		59,084	104,374
Total assets		2,123,259	2,259,254
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term debt	11	16,301	40,360
Accrued interest expenses	11	24,925	41,986
Accounts payable	12	220,972	246,070
Other current liabilities	13	51,502	11,117
Total current liabilities		313,700	339,533
Long term debt	11	950,887	1,262,915

Other long term liabilities	14	135,638	120,588
Commitments and contingencies	15	11,349	20,016
Minority interests		—	—
GCO loan	16	98,464	—
Participative loans	17	300,000	300,000
Shareholders' equity	18		
Common stock		484,663	484,663
Share premium.....		337,746	337,746
Accumulated deficit, beginning of period.....		(606,207)	(411,565)
Net profit/(loss) for the year		97,019	(194,642)
Total shareholders' equity		313,221	216,202
Total liabilities and shareholders' equity		2,123,259	2,259,254

The accompanying notes are an integral part of these consolidated financial statements.

CABLEUROPA, S.A.U. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF PROFIT AND LOSS FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001 (In Euro thousand)

	<u>Note</u>	<u>Year ended December 31,</u>		
		<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues	21	358,587	253,438	143,605
Operating expenses				
Cost of services.....	21	105,597	85,741	74,251
Selling, general and administrative expenses.....	21	166,119	180,821	188,466
Less costs capitalized as property and equipment and start-up costs.....	21	(15,247)	(28,938)	(61,756)
Restructuring and other related expenses.....		—	—	9,127
Broadcast rights amortization.....		4,247	5,736	4,508
Depreciation and amortization.....		102,485	98,303	80,771
Total operating expenses before net financial expense and goodwill amortization		363,201	341,663	295,367
Operating loss		(4,614)	(88,225)	(151,762)
Amortization of goodwill.....		(13,390)	(13,434)	(13,753)
Net financial expense.....	21	(130,248)	(96,761)	(146,870)
Loss from ordinary activities		(148,252)	(198,420)	(312,385)
Net extraordinary income/(expense).....	21	298,260	(171,763)	(3,341)
Profit/(loss) before income tax and minority interests		150,008	(370,183)	(315,726)
Income tax (charge)/credit.....	20	(52,989)	174,723	97,083
Profit/(loss) before minority interests		97,019	(195,460)	(218,643)
Loss attributed to minority interests.....		—	818	1,723
Net profit/(loss) for the year		97,019	(194,642)	(216,920)

The accompanying notes are an integral part of these consolidated financial statements.

CABLEUROPA, S.A.U. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In Euro thousand, except number of shares data)

	<u>Number of shares</u>	<u>Common stock</u>	<u>Share premium</u>	<u>Accumulated deficit</u>	<u>Net profit/(loss) for the year</u>	<u>Total</u>
Balance, December 31, 2000	488,951,285	488,951	337,746	(69,777)	(124,868)	632,052
Issuance of common stock, net	2,830,144	2,830	—	—	—	2,830
Treasury shares acquisition ...	—	—	(7,118)	7,118	—	—
Capital reduction.....	(7,118,710)	(7,118)	7,118	(7,118)	—	(7,118)
Transfer of 2000 net loss	—	—	—	(124,868)	124,868	—
Net loss for the year	—	—	—	—	(216,920)	(216,920)
Balance, December 31, 2001	484,662,719	484,663	337,746	(194,645)	(216,920)	410,844
Transfer of 2001 net loss	—	—	—	(216,920)	216,920	—
Net loss for the year	—	—	—	—	(194,642)	(194,642)
Balance, December 31, 2002	484,662,719	484,663	337,746	(411,565)	(194,642)	216,202
Transfer of 2002 net loss	—	—	—	(194,642)	194,642	—
Net profit for the year.....	—	—	—	—	97,019	97,019
Balance, December 31, 2003	484,662,719	484,663	337,746	(606,207)	97,019	313,221

The accompanying notes are an integral part of these consolidated financial statements.

CABLEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

1. Group structure and activities

The primary activity of Cableuropa, S.A.U. and its consolidated subsidiaries ("the Group") is the development and operation of broadband cable television and telecommunications networks in Spain.

The Group, which operates under the brand name of "ONO," is mainly comprised of cable multiservice operators that obtained their corresponding territorial licenses and concessions for the provision of telecommunications, cable television and other services in their respective franchise areas.

Cableuropa, S.A.U. was incorporated on June 2, 1992. It is domiciled at Edificio Belagua, c/Basauri 7-9, 28023, Urbanización La Florida, Madrid (District of Moncloa-Aravaca), Spain.

The companies composing the Group are the following:

Cable multiservice operators:

<u>Company Name</u>	<u>Head office location</u>	<u>Direct and indirect ownership (%) December 31, 2002</u>	<u>Direct and indirect ownership (%) December 31, 2003</u>	<u>Date franchise awarded</u>	<u>Franchise area</u>
Cableuropa, S.A.U.	Madrid	n/a	n/a	01/14/98	Albacete (City)
				07/31/97	Cádiz (City)
				05/28/98	Huelva (City)
				11/13/97	Mallorca (Island)
				08/07/98	Cantabria
				02/26/98	El Puerto de Santamaria
				12/31/98	Sanlúcar de Barrameda
				08/07/98	Region of Andalusia IV
				07/23/03	Castilla La Mancha
Mediterránea Sur Sistemas de Cable, S.A.	Alicante	97.83	97.83	08/07/98	Comunidad Valenciana Sur
Mediterránea Norte Sistemas de Cable, S.A.	Castellón	97.83	97.83	08/07/98	Comunidad Valenciana Norte and Torrente
Región de Murcia de Cable, S.A.	Murcia	99.94	99.94	11/13/97	Murcia
Valencia de Cable, S.A.	Valencia	98.13	98.13	10/21/97	Valencia (City)

Other subsidiaries:

<u>Company Name</u>	<u>Head office location</u>	<u>Direct and indirect ownership (%) December 31, 2002</u>	<u>Direct and indirect ownership (%) December 31, 2003</u>
ONONet Comunicaciones, S.A.U. ⁽¹⁾	Madrid	100.00	—
Argos Telecomunicaciones, S.A.U. ⁽¹⁾	Madrid	100.00	—
Hydra Servicios de Atención al Cliente, S.A.U. ⁽¹⁾	Valencia	100.00	—
Merlín Servicios Portadores, S.A.U. ⁽¹⁾	Logroño	100.00	—
Univertel Comunicações Universais, S.A. ⁽²⁾	Portugal	100.00	100.00
NSEC International, B.V. ⁽²⁾	Netherlands	100.00	100.00
Madrid Sistemas de Cable, S.A. ⁽³⁾	Madrid	74.00	74.00

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- (1) Companies merged into Cableuropa with accounting effects as of January 1, 2003.
- (2) Companies with no activity.
- (3) Companies with no activity and excluded from the consolidation.

Given the current available sources of funding, and subject to there being no material changes in the Group's operations or in the operating environment, the Group has enough financing to fund its current planned network buildout, working capital requirements and expected operating losses, through to the time when it expects to achieve positive cash-flow.

2. Basis of presentation

The consolidated financial statements and the accompanying notes are prepared in accordance with generally accepted accounting principles in Spain ("Spanish GAAP"), which present the information required under Spanish Corporate Law.

Certain accounting practices applied by the Group that conform with generally accepted accounting principles in Spain may not conform with generally accepted accounting principles in the United States ("US GAAP"). A description of differences and a reconciliation of consolidated net loss and shareholders' equity from Spanish GAAP to US GAAP is set forth in Note 29. The financial statements have been reformatted from the original Spanish statutory financial statements presentation and include certain additional disclosures in order to conform more closely to the form and content of financial statements required by the US Securities and Exchange Commission.

The figures in these consolidated financial statements are expressed in thousand of euro unless otherwise stated.

- (a) True and fair view

The consolidated financial statements have been prepared on the basis of the accounting records of Cableuropa, S.A.U. and subsidiaries, and include all adjustments and reclassifications required for consistency with the parent company in terms of both timing and values. These financial statements are presented in accordance with the provisions of current mercantile legislation and the rules laid down in the General Accounting Plan and in Royal Decree 1815/1991 which approved the rules for the preparation of consolidated financial statements for the purpose of giving a true and fair view of the Group's consolidated net worth, financial situation and results.

- (b) Consolidation principles

These consolidated financial statements have been prepared applying the acquisition method.

These consolidated financial statements are based on the financial statements of each of the Group companies as of December 31, 2003.

The results of operations of companies acquired or sold have been included since or until the date of acquisition or sale, as appropriate.

- (c) Groupings of items

The consolidated financial statements are presented in a summarized form. When appropriate, an analysis is provided in the relevant note to the financial statements.

- (d) Comparability

The change in the accounting criteria for the depreciation of start-up costs applied in 2002 and described in note 3.g, should be considered when comparing information.

- (e) Uniformity

To facilitate a uniform presentation of the items included in the consolidated financial statements, the parent company's accounting principles and standards have been applied to all the consolidated companies.

3. Accounting policies

(a) Goodwill

Goodwill relates to the positive difference between the book value of the parent company's direct or indirect shareholdings in subsidiaries and the value of the portion of the subsidiaries' net equity which is attributable to those shareholdings, adjusted for any latent capital gains at the date of the acquisition.

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

Goodwill is amortized on a straight-line basis over 20 years as this is considered to be the average payback period for the investments concerned.

(b) Balances and transactions between consolidated companies

All significant balances and transactions between consolidated companies are eliminated in the consolidation process.

(c) Minority interests

Third party holdings in the common stock, reserves and results of the consolidated subsidiaries are recorded under minority interests in the consolidated balance sheet and under loss attributed to minority shareholders in the consolidated statements of profit and loss, respectively, up to the limit of their contributions.

(d) Restricted cash deposits

Restricted cash deposits which mature in the short term are classified as short term investments.

(e) Foreign exchange rate options

Foreign exchange rate options are stated at the lower of acquisition cost or market value of the premium cost at the balance sheet date.

(f) Inventories

Inventories, included under the caption "Other current assets," are stated at their weighted average acquisition cost and mainly correspond to customer premise equipment and broadcast rights to be used within one year, which are amortized on a straight-line basis.

(g) Start-up costs

Start-up costs mainly include leasehold improvements and cost related to capital increases, as well as other related legal and registration costs.

All capitalized start-up costs are amortized on a straight-line basis over a period of 5 years.

Up to 2002, the Group booked costs incurred during the prematurity period as start-up costs. The Group considered the prematurity period as the period in which network construction increases faster than the company's commercial operations. Cable multiservice operators have a significant portion of idle capacity during the early years of operations, as substantial completion of the network construction is needed before commercial launch of services.

As a consequence of the changes occurring in the telecommunications sector, as well as changes in the circumstances of the Group, particularly at the end of year 2002, and considering the Group's intention to converge over time with International Financial Reporting Standards, the Group modified the accounting criteria related to the capitalization of start-up costs during the year 2002, writing them off completely. This change in accounting criteria resulted in an extraordinary charge of euro 139.9 million in 2002 (note 21.f).

(h) Intangible assets

Intangible assets are recorded at their purchase cost or development cost, as applicable.

In addition to goodwill arising as a consequence of vertical mergers, the main items included under this caption are:

—Franchise acquisition costs

Franchise acquisition costs consist primarily of costs incurred in preparing and obtaining the telecommunications and cable television licenses and concessions in the different franchise areas.

Franchise acquisition costs are amortized on a straight-line basis over the initial 25-year license period of the concession.

—Computer software

Computer software acquired from third parties is recorded at cost. Computer software is amortized on a straight-line basis over a period of 4 years.

—Broadcast rights

The broadcast rights to be used in a period beyond one year are accounted for as intangible assets. The cost of these rights is charged to the statement of profit and loss on a straight-line basis over the term of the relevant broadcast rights agreement. The rights to be used within one year are presented as inventory in the Other current assets caption.

—Finance leases

Assets acquired under financial lease agreements are booked as intangible assets. These assets are depreciated at the same rates used for similar tangible assets. The related financial expense is charged to the statement of profit and loss over the term of the lease using the effective interest method.

(i) Tangible assets

Tangible assets (property, plant and equipment), which include all network, technical equipment, infrastructure and the related direct labor and overhead, are stated at cost. Additions, replacements, installation costs and major improvements that increase productivity, capacity or efficiency or that extends the economic life of the assets are capitalized. Costs for normal repairs and maintenance are charged to the statement of profit and loss as incurred.

When tangible assets are retired or otherwise disposed of, the related asset and accumulated depreciation accounts are adjusted accordingly.

Estimated useful lives of tangible assets are shown below:

	Years
Network and technical equipment.....	10 to 25
Customer premise equipment	6 to 7
Computer hardware.....	4 to 5
Other tangible assets.....	5 to 13

Tangible assets are depreciated on a straight-line basis, although during the prematurity period this depreciation is weighted depending on each operating company's stage of development. This depreciation method has also been approved by the Spanish tax authorities for fiscal purposes.

The Group evaluates the carrying value of all assets whenever events or circumstances indicate the carrying value of assets may exceed their recoverable amounts. An impairment loss is recognized when the estimated future cash flows expected to result from the use of an asset are less than the carrying value of the asset (see note 8).

(j) Financial assets

This caption mainly includes tax credits that have been recognized by the Group companies in their financial statements. Tax credits are

accounted for as financial investments when they are expected to be recovered beyond one year.

Tax credits expected to be recovered within one year are presented as Accounts receivable.

(k) Deferred expenses

Costs related to the issuance of debt and certain other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates the costs that would be incurred under the effective interest method.

(l) Short and long term liabilities

Short and long term liabilities are stated at the amount at which they are to be repaid at maturity and any implicit interest included either in their face value or repayment value is recorded under Deferred expenses.

Liabilities are classified in the Group's balance sheet according to their maturity. Short term liabilities are those with maturity within one year and long term liabilities those maturing beyond one year.

(m) Cross-currency swaps

Transactions aimed to eliminate or significantly reduce exchange rate risks on asset and liability positions are treated as hedging transactions. The gains or losses arising during the life of these transactions are accrued and taken to the statement of profit and loss together with the related gains or losses on the hedged assets or liabilities.

Transactions which are not assigned to hedge exchange rate risks are not treated as hedging transactions. In transactions of this kind, the differences in market price are recorded when the transactions are finally settled. However, if potential losses are anticipated at year-end, the related provisions is recorded with a charge to the consolidated statement of profit and loss.

(n) Share based compensation plan

The Group adopted a phantom stock option plan (the "Phantom Plan"), which provides eligible employees, directors and former directors with the right, subject to vesting, to receive the difference between the market value of certain number of shares of Cableuropa, S.A.U. (the Group's parent company) or shares of Grupo Corporativo ONO, S.A. (the sole shareholder of Cableuropa, S.A.U.) as estimated by the Board of Directors and their exercise price. The maximum period to exercise the options is 10 years. The liability under the Phantom Plan is estimated annually. Changes in the value of the options, if any, would be recognized in the statement of profit and loss.

(o) Transactions and balances denominated in foreign currencies

Receivables and payables denominated in foreign currencies are stated at year-end exchange rates. Transactions in foreign currencies are recorded at the exchange rates on the dates when they occur. Realized gains, together with realized and unrealized losses on exchange, are taken to the statement of profit and loss in the year. Unrealized gains are recorded in the consolidated balance sheet as deferred income and are taken to the statement of profit and loss only when realized or to the extent that losses on exchange are recognized for the same or higher amounts within each homogeneous group.

Receivable and payable balances denominated in foreign currency covered by hedging derivative financial instruments are stated at the exchange rate of the relevant instrument.

(p) Severance payments

Severance indemnities that can be objectively quantified are expensed at the estimated cost in the year in which the related decision is taken.

(q) Corporate income tax

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

(r) Income and expenses

Income and expenses are recorded on an accrual basis, i.e. in the period in which the income or expense deriving from the goods or services provided is earned or incurred. For reasons of prudence, however, the Group only records profits realized at the year end, while foreseeable risks and potential losses are recorded as soon as they are identified.

Revenues are derived, mainly, from the sale of telecommunications and cable television services to residential and business customers and from network interconnection with other operators. Such revenues are recognized only when persuasive evidence of a sales arrangement exists, the related services have been rendered, the sales price to the customer is fixed and determinable and collectibility is reasonably assured.

4. Short term investments

	<u>Euro thousand</u>	
	2003	2002
Short term investments in subsidiaries ⁽¹⁾	2,202	2,202
Short term restricted cash deposits	—	39,110
Margin calls under swap agreements	19,556	—
Option.....	4,349	—
Other short term investments.....	5,197	11,697
Provisions	(6,551)	(2,202)
Total short term investments, net.....	24,753	50,807

(1) Investments in Madrid Sistemas del Cable, S.A. and Sevilla Sistemas del Cable, S.A. excluded from consolidation and fully provided for as of December 31, 2003 and 2002.

(a) Short term restricted cash deposits

In connection with the Senior Bank Facility (see note 11.a), the Group committed to hold in an escrow account sufficient cash to meet all the interest payments until March 31, 2003 under the Multi-Borrower Credit Facilities between the Group and ONO Finance, PLC in relation to the Notes issued by ONO Finance, PLC.

The original deposit amounted to euro 39 million and euro 0.1 million were accrued interest as of December 31, 2002. In February 2003, the Group partially funded the acquisition of Notes (see note 11.d) by using funds of the escrow account.

Movements on the restricted cash deposits accounts in 2003 are shown below:

	<u>Euro thousand</u>
Short term restricted cash deposits December 31, 2002	39,110
Interest Payments	(14,010)
Interest income on short term restricted cash deposits	79
Acquisition of Notes (see note 11.d).....	(25,179)
Short term restricted cash deposits December 31, 2003	—

(b) Margin calls under swap agreements

According to the swap agreements subscribed, under certain circumstances the Group is committed to advance margin calls to its swap counterparties (see note 13). As of December 31, 2003 the balance of margin calls made amount to euro 19.6 million.

(c) Option

In June 2003 the Group purchased a euro call/USD put option with the strike at USD 1.1729 per euro 1.00 on April 29, 2004 to cap the potential cash loss that the Group could face on maturity of the cross-currency swap agreements (see note 13). As of December 31, 2003 the remaining portion of the option is euro 4.3 million, which has been fully provided for according to the market value of the premium cost.

(d) Other short term investments

It mainly comprises short term cash deposits as guarantee of part of the state subsidies (note 11.e).

5. Accounts receivable

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Receivables from related parties (see note 22).....	841	31,853
Accounts receivable and other debtors.....	57,242	49,991
Tax receivables (see note 20).....	25,228	129,595
Less: Allowance for doubtful accounts.....	(30,451)	(23,543)
Total accounts receivable, net.....	52,860	187,896

6. Start-up costs

	<u>Euro thousand</u>					
	<u>Balance at</u>	<u>Additions</u>	<u>Transfers</u>	<u>Amortizations</u>	<u>Write off</u>	<u>Balance at</u>
	<u>12.31.2001</u>				<u>(note 21.f)</u>	<u>12.31.2002</u>
Start-up costs, net.....	139,418	12,177	1,231	(3,874)	(139,859)	9,093
Stock issuance costs, net	5,388	1,066	(73)	(1,708)	—	4,673
Total start-up costs.....	144,806	13,243	1,158	(5,582)	(139,859)	13,766

	<u>Euro thousand</u>				
	<u>Balance at</u>	<u>Additions</u>	<u>Amortizations</u>	<u>Disposals</u>	<u>Balance at</u>
	<u>12.31.2002</u>				<u>12.31.2003</u>
Start-up costs, net.....	9,093	1,603	(4,127)	(768)	5,801
Stock issuance costs, net.....	4,673	4	(1,698)	(13)	2,966
Total start-up costs.....	13,766	1,607	(5,825)	(781)	8,767

7. Intangible assets

	<u>Euro thousand</u>				
	<u>Balance at</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at</u>
	<u>12.31.2001</u>			<u>(note 10)</u>	<u>12.31.2002</u>
Cost					
Goodwill.....	125,841	227	—	2,180	128,248
Franchise acquisition costs.....	11,948	7	—	—	11,955
Broadcast rights.....	4,708	2,907	(3,933)	—	3,682
Computer software.....	29,791	2,615	(13)	—	32,393
Finance leases.....	6,309	—	—	—	6,309
Other intangible assets.....	1,092	21	—	—	1,113
Total cost.....	179,689	5,777	(3,946)	2,180	183,700

Amortization

Goodwill.....	(6,879)	(6,436)	—	(138)	(13,453)
Franchise acquisition costs.....	(1,016)	(5,321)	(111)	—	(6,448)
Computer software.....	(13,047)	(7,507)	8	7	(20,539)

Finance leases.....	(755)	(2,372)	—	—	(3,127)
Other intangible assets.....	(631)	(142)	10	4	(759)
Total amortization.....	(22,328)	(21,778)	(93)	(127)	(44,326)
Total intangible assets, net.....	157,361	(16,001)	(4,039)	2,053	139,374

	<u>Euro thousand</u>				
	<u>Balance at</u>				<u>Balance at</u>
	<u>12.31.2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>12.31.2003</u>
Cost					
Goodwill.....	128,248	—	—	260	128,508
Franchise acquisition costs.....	11,955	173	—	—	12,128
Broadcast rights.....	3,682	2,286	(5,968)	—	—
Computer software.....	32,393	3,289	(60)	—	35,622
Finance leases.....	6,309	—	—	(4,647)	1,662
Other intangible assets.....	1,113	7	(240)	—	880
Total cost.....	183,700	5,755	(6,268)	(4,387)	178,800
Amortization					
Goodwill.....	(13,453)	(6,445)	—	(260)	(20,158)
Franchise acquisition costs.....	(6,448)	(273)	298	(145)	(6,568)
Computer software.....	(20,539)	(6,187)	13	—	(26,713)
Finance leases.....	(3,127)	(1,710)	—	3,357	(1,480)
Other intangible assets.....	(759)	(135)	48	145	(701)
Total amortization.....	(44,326)	(14,750)	359	3,097	(55,620)
Provisions.....	—	(1,737)	—	—	(1,737)
Total intangible assets, net.....	139,374	(10,732)	(5,909)	(1,290)	121,443

As at December 31, 2003 there were fully depreciated intangible assets, with an acquisition cost of euro 18.0 million (euro 11.8 million as at December 31, 2002), mainly corresponding to computer software.

(a) Goodwill

From 2001, the Group has carried out a corporate reorganization resulting in different mergers of Cableuropa, S.A.U. and certain of its wholly owned subsidiaries. Each of these mergers required the registration of a public deed for the transaction. As these mergers were vertical mergers, there were not capital increases in the acquiring company.

The companies merged with Cableuropa in each of the three merger processes were as follows:

December 31, 2001 (with accounting effects January 1, 2001): Albacete Sistemas de Cable, S.A.U., Cable y Televisión de El Puerto, S.A.U., Cádiz de Cable y Televisión, S.A.U., Corporación Mallorquina de Cable, S.A.U., Huelva de Cable y Televisión, S.A.U., Santander de Cable, S.A.U. and TDC Sanlucar, S.A.U.

October 1, 2002 (with accounting effects January 1, 2002): Cable y Televisión de Andalucía, S.A.U., Jerez de Cable, S.L.U., Onolab Internet, S.A.U., Ono Service Provider, S.A.U. y Telesanlucar, S.L.U.

October 1, 2003 (with accounting effects January 1, 2003): ONONet Comunicaciones, S.A.U, Argos Telecomunicaciones, S.A.U., Hydra Servicios de Atención al Cliente, S.A.U. and Merlín Servicios Portadores, S.A.U.

(b) Finance leases

Euro thousand
Installments paid in

				<u>year</u>		
	<u>Term</u>	<u>Cost</u>	<u>Purchase option value</u>	<u>2003</u>	<u>2002 and prior</u>	<u>Installments outstanding at 12.31.2003</u>
Computer hardware.....	24/36 months	1,662	54	1,814	5,091	181

8. Tangible Assets

	<u>Euro thousand</u>				
	<u>Balance at 12.31.2001</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance at 12.31.2002</u>
Cost					
Network and technical equipment.....	984,499	73,419	199,187	(10,472)	1,246,633
Computer hardware.....	33,969	3,927	(86)	(17)	37,793
Other tangible assets.....	18,166	251	(547)	(334)	17,536
Total operating tangible assets	1,036,634	77,597	198,554	(10,823)	1,301,962
Payments on account and assets in course of construction .	88,795	175,276	(200,302)	—	63,769
Total cost	1,125,429	252,873	(1,748)	(10,823)	1,365,731
Amortization					
Network and technical equipment.....	(43,599)	(61,780)	726	1,278	(103,375)
Computer hardware.....	(11,061)	(7,509)	7	11	(18,552)
Other tangible assets.....	(3,529)	(1,653)	(155)	210	(5,127)
Total accumulated amortization.....	(58,189)	(70,942)	578	1,499	(127,054)
Provisions	(2,000)	(34,281)	—	—	(36,281)
Total tangible assets, net	1,065,240	147,650	(1,170)	(9,324)	1,202,396

	<u>Euro thousand</u>				
	<u>Balance at 12.31.2002</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance at 12.31.2003</u>
Cost					
Network and technical equipment.....	1,246,633	60,261	144,731	(13,829)	1,437,796
Computer hardware.....	37,793	3,261	4,733	(495)	45,292
Other tangible assets.....	17,536	158	(169)	(1,639)	15,886
Total operating tangible assets	1,301,962	63,680	149,295	(15,963)	1,498,974
Payments on account and assets in course of construction .	63,769	134,918	(144,547)	(2,717)	51,423
Total cost	1,365,731	198,598	4,748	(18,680)	1,550,397
Amortization					
Network and technical equipment.....	(103,375)	(72,398)	(101)	2,801	(173,073)
Computer hardware.....	(18,552)	(8,019)	(3,357)	362	(29,566)
Other tangible assets.....	(5,127)	(1,430)	—	319	(6,238)
Total accumulated amortization.....	(127,054)	(81,847)	(3,458)	3,482	(208,877)
Provisions	(36,281)	(12,829)	—	2,733	(46,377)
Total tangible assets, net	1,202,396	103,922	1,290	(12,465)	1,295,143

The Group has in place insurance policies to cover potential risks affecting its tangible assets used in operations.

The network and technical equipment caption includes network construction costs within the Group's franchise areas as well as

investments in the national fiber optic network that interconnects the franchise areas and provides telecommunications services outside of these areas.

As a consequence of the decision to launch digital TV services in 2003, as at December 31, 2002 analog set top boxes, with an original cost of euro 42.8 million, were fully depreciated, resulting in a euro 32 million charge to the statement of profit and loss.

In 2003, provisions of euro 12.8 million have been recorded mainly to cover the expected technical obsolescence of certain assets included under Network and technical equipment.

In addition to the analog set top boxes, as at December 31, 2003 there are other fully depreciated tangible assets with an original cost of euro 8.4 million (euro 3.2 million as at December 31, 2002), mainly corresponding to Computer hardware.

As of December 31, 2003 and 2002 the Group had outstanding firm purchase orders with its main equipment and construction suppliers for euro 24.8 million, and euro 51.2 million respectively.

9. Financial assets

	<u>Euro thousand</u>				Balance at 12.31.2002
	Balance at 12.31.2001	Additions	Disposals	Transfers	
Net tax credits (note 20).....	136,062	174,723	—	(67,153)	243,632
Non-cash deferred tax assets ⁽²⁾	40,542	36,736	(4,780)	(3,696)	68,802
Other financial investments.....	2,085	—	(775)	—	1,310
	178,689	211,459	(5,555)	(70,849)	313,744

	<u>Euro thousand</u>				Balance at 12.31.2003
	Balance at 12.31.2002	Additions	Disposals	Transfers	
Net tax credits (note 20).....	243,632	4,507	(3,114)	—	245,025
Tax balance with related parties ⁽¹⁾	—	12,772	—	—	12,772
Non-cash deferred tax assets ⁽²⁾	68,802	—	(69)	3,696	72,429
Other financial investments.....	1,310	2	—	—	1,312
	313,744	17,281	(3,183)	3,696	331,538

(1) Balance receivable from Grupo Corporativo ONO, S.A. in relation to tax credits arising from tax consolidation in 2003 (see note 22).

(2) Offsets the non-cash deferred tax liabilities in note 14.

10. Goodwill on consolidation

	<u>Euro thousand</u>			Balance at 12.31.2002
	Balance at 12.31.2001	Additions/ Disposals	Transfers (note 7)	
Companies				
Valencia de Cable, S.A.	66,380	—	—	66,380
Región de Murcia de Cable, S.A.	64,826	—	—	64,826
Mediterránea Norte Sistemas de Cable, S.A.	56,072	—	—	56,072
Mediterránea Sur Sistemas de Cable, S.A.	79,377	—	—	79,377
Cable y Televisión de Andalucía, S.A.U.	1,505	—	(1,505)	—

NSEC, B.V.	1,148	—	—	1,148
Telesanlúcar, S.L.U.	675	—	(675)	—
Univertel Comunicações Universais, S.A.	878	—	—	878
Merlín Servicios Portadores, S.A.U.	260	—	—	260
Total Cost	271,121	—	(2,180)	268,941
Less amortization	(14,958)	(13,434)	138	(28,254)
Provision	—	(754)	—	(754)
Total goodwill, net	256,163	(14,188)	(2,042)	239,933

	Euro thousand			
	Balance at 12.31.2002	Additions/ Disposals	Transfers (note 7)	Balance at 12.31.2003
Companies				
Valencia de Cable, S.A.	66,380	—	—	66,380
Región de Murcia de Cable, S.A.	64,826	—	—	64,826
Mediterránea Norte Sistemas de Cable, S.A.	56,072	—	—	56,072
Mediterránea Sur Sistemas de Cable, S.A.	79,377	—	—	79,377
NSEC, B.V.	1,148	—	—	1,148
Univertel Comunicações Universais, S.A.	878	—	—	878
Merlín Servicios Portadores, S.A.U.	260	—	(260)	—
Total Cost	268,941	—	(260)	268,681
Less amortization	(28,254)	(13,390)	260	(41,384)
Provision	(754)	—	—	(754)
Total goodwill, net	239,933	(13,390)	—	226,543

Transfers from goodwill on consolidation to intangible assets result from the merger processes described in note 7.a. CABLEEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

11. Short and long term debt

The detail of short and long term debt as at December, 31 2002 is as follows:

Type of debt	Average interest rate %	Euro thousand							Subsequent years	Total debt	Accrued interest expenses
		Maximum available as at 12.31.02	2003	2004	2005	2006	2007				
Debts with credit entities											
Senior Bank Facility.....	7.05	445,000	—	—	—	—	—	270,000	270,000	2,678	
VAT facility.....	4.44	35,000	21,741	—	—	—	—	—	21,741	162	
La Caixa loan.....	4.17	3,005	1,046	1,657	—	—	—	—	2,703	59	
Leasing	5.41	—	1,823	172	—	—	—	—	1,995	—	
Other credit facilities	4.32	28,910	15,750	—	—	—	—	—	15,750	27	
Total debt with credit entities..			40,360	1,829	—	—	—	270,000	312,189	2,926	
Other debts											
Debt related to Notes issues			—	—	—	—	—	974,009	974,009	39,060	
State subsidies			—	689	3,414	3,414	3,414	6,146	17,077	—	
Total other debts			—	689	3,414	3,414	3,414	980,155	991,086	39,060	
Total short and long term debts			40,360	2,518	3,414	3,414	3,414	1,250,155	1,303,275	41,986	

The detail of short and long term debt as at December, 31 2003 is as follows:

<u>Type of debt</u>	<u>Average interest rate %</u>	<u>Maximum available as at 12.31.03</u>	<u>Euro thousand</u>					<u>Subsequent years</u>	<u>Total debt</u>	<u>Accrued interest expenses</u>
			<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>			
Debt with credit entities										
Senior Bank Facility.....	5.82	675,000	—	—	—	245,246	269,754	—	515,000	4,841
VAT facility.....	3.37	8,500	8,180	—	—	—	—	—	8,180	27
La Caixa loan.....	3.30	1,654	1,654	—	—	—	—	—	1,654	24
Leasing	4.74	—	181	—	—	—	—	—	181	—
Other credit facilities	3.48	37,600	5,597	—	—	—	—	—	5,597	24
Total debt with credit entities			15,612	—	—	245,246	269,754	—	530,612	4,916
Other debts										
Debt related to Notes issues			—	—	—	—	—	410,427	410,427	20,009
State subsidies			689	3,703	5,315	5,315	5,170	5,957	26,149	—
Total other debts			689	3,703	5,315	5,315	5,170	416,384	436,576	20,009
Total short and long term debt.....			16,301	3,703	5,315	250,561	274,924	416,384	967,188	24,925

(a) Senior Bank Facility

In August 2001, the Group entered into a senior secured bank facility with a series of banks, to provide financing of up to euro 800 million for the network construction, capital expenditure and working capital requirements of the Group.

On February 13, 2003, as part of the approval process for the partial cancellation of the Notes (see note 11.d), a number of amendments were made to the Senior Bank Facility. The most important amendments were: the reduction in size of the Senior Bank Facility from euro 800 million to euro 750 million, the reduction in maximum amounts available under the facility during 2003, amendments to financial covenants and the inclusion of a new covenant on capital expenditure.

The facility is structured in different tranches. As of December 31, 2003 the Group had drawn euro 515 million under the euro 750 million Senior Bank Facility. The maturity date of the Senior Bank Facility is December 31, 2008.

Interest/Fees

The Senior Bank Facility bears interest at a floating rate determined by reference to EURIBOR plus a margin.

Arrangement and underwriting fees paid in 2001 were accounted for as Deferred expenses. A commitment fee on the undrawn amount is payable quarterly in arrears. Facility agent and security agent fees are also payable.

Guarantees

As security for the Senior Bank Facility, the lenders thereunder have been granted a first-ranking security interest in:

- Shares of Cableuropa, S.A.U. owned by Grupo Corporativo ONO, S.A., the Group's sole shareholder, and Cableuropa's shares in the rest of the borrowers; and
- Material assets of the borrowers to the extent that this can be granted, including material contracts, intra-group loans, bank accounts, insurance policies, and intellectual property.

The borrowers have jointly and severally guaranteed all amounts owed under the Senior Bank Facility on a senior basis.

The Senior Bank Facility also contains other financial and non-financial covenants which, among other things, establish conditions for the incurrence of additional indebtedness, assets sales, sale and leaseback arrangements, acquisitions, the making of loans and guarantees, prepayment of other indebtedness, investments, dividends, entry into material contracts, voluntary prepayment and mandatory prepayment in certain circumstances.

(b) Value added tax discounting facility ("VAT facility")

In June 2003, the Group entered into a VAT discounting facility with a group of Spanish institutions in relation to the 2003 VAT refunds, similar to a previous facility signed in 2002. VAT refunds in Spain are received after the end of the year for which the VAT refund has been generated and paid. The VAT discounting facility allows the Group access to VAT refunds at an earlier time. The facility is secured by a pledge over the VAT receivables from the Spanish tax authorities and over the bank account to which those refunds are to be credited. Borrowings under the discounting facility are limited to the lower of 95% of the Group's receivables from the Spanish tax authorities or euro 8.5 million. The facility is paid off upon receipt of the refund and bears interest at a floating rate determined by reference to EURIBOR plus a margin. As of December 31, 2003 the Group had borrowed euro 8.2 million under the facility (euro 21.7 million as of December 31, 2002).

(c) Other credit facilities

The Group has a series of short term credit lines, with different credit entities, which usually bear interest at EURIBOR plus a margin.

(d) Debt related to Notes issues

Debt related to Notes issues corresponds to the Multi-Borrower Credit Facilities between the Group and ONO Finance, PLC (the issuer) in relation to the Notes issued by the latter.

The principal activity of ONO Finance, PLC, established in the United Kingdom, is that of a finance company. ONO Finance, PLC's business is the issuance of debt securities and the on-lending of the proceeds of such debt offerings to the Group. ONO Finance, PLC is owned 2% by Cableuropa, S.A.U.

The Group's cable multiservice operators, are obligors and guarantors under each of the indentures governing the Notes. These guarantees are provided on a joint and several basis.

Since May, 1999, ONO Finance, PLC has issued 5 different tranches of securities in the form of Senior Subordinated Notes (the "Notes"), which are listed on the Luxembourg stock exchange. In February 2003, part of these Notes were cancelled giving rise to an extraordinary income.

Detail of outstanding Notes as of December 31, 2003 is as follows:

<u>Issue date</u>	<u>Number of Notes</u>	<u>Face value per Note</u>	<u>Annual coupon</u>	<u>Maturity</u>
6 May 1999.....	92,098	1,000 USD	13%	1 May 2009
6 May 1999.....	45,628	1,000 EURO	13%	1 May 2009
30 June 2000.....	113,702	1,000 EURO	14%	15 July 2010
9 February 2001.....	83,514	1,000 USD	14%	15 February 2011
9 February 2001.....	112,053	1,000 EURO	14%	15 February 2011

All coupons are payable semi-annually.

The Notes mature 10 years after each issue, but the issuer has the right, at its own discretion, to repay them in advance, subject to certain conditions, from the fifth anniversary of their issue.

Multi-Borrower Credit Facilities (MBCF)

In connection with, and on the same date of, each of ONO Finance, PLC's Notes issues, Cableuropa, S.A.U. and the Group's other cable multiservice operators, as borrowers and guarantors and ONO Finance, PLC as lender, entered into Multi-Borrower Credit Facilities agreements, to transfer the Notes proceeds to the guarantors, in return for the guarantors agreeing to reimburse ONO Finance, PLC with:

- the total face value of the Notes at their maturity, being the issue value of the Notes plus a management and reimbursement fee ("MRF"), that matches the Notes discounts, to be paid at maturity, and
- enough interest to cover coupon payments on the Notes plus a margin.

An analysis of the outstanding MBCF's as at December 31, 2003, is as follows:

Maturity	Currency	<u>Euro or USD thousand (as applicable)</u>			<u>Euro thousand (except percentages)</u>			<u>Accrued interest expenses</u>
		<u>Principal</u>	<u>MRF⁽¹⁾</u>	<u>Total debt</u>	<u>Total debt⁽²⁾</u>	<u>Coupon⁽³⁾</u>		
2009	USD	90,677	1,421	92,098	72,920	13.214%	1,580	
2009	EURO	44,924	704	45,628	45,628	13.214%	988	
2010	EURO	113,702	—	113,702	113,702	14.010%	7,301	
2011	USD	71,992	11,522	83,514	66,124	16.252%	4,253	
2011	EURO	96,594	15,459	112,053	112,053	16.252%	5,887	
					410,427		20,009	

(1) Management and reimbursement fee. Accounted for as deferred expenses and amortized on a straight-line basis over the MBCF duration.

(2) Notes nominated in USD have been converted applying the official exchange rate published by the ECB on December 31, 2003 of euro 1.00 = USD 1.2630.

(3) Coupon payable on principal.

Cancellation of the Notes

During the year 2002, the sole shareholder of the Group, Grupo Corporativo ONO, S.A., purchased Notes issued by ONO Finance, PLC in the open market and through a tender offer.

The purpose of the tender offer and the open market purchases of Notes was to reduce the level of indebtedness of the Group in order to enhance its operating and financial flexibility and improve its position to meet its strategic objectives.

As part of the process of the cancellation of the Notes, the following transactions took place:

- On February 13, 2003 Grupo Corporativo ONO, S.A. sold all of the Notes to the Group other than euro 30 million (face value) of 2011 Notes that it retained. The Group transferred the Notes to ONO Finance, PLC in exchange for a reduction in the amounts owed under the Multi-Borrower Credit Facilities.
- On February 13, 2003, Grupo Corporativo ONO, S.A. granted a loan to Cableuropa, S.A.U. amounting to euro 98.5 million (see note 16).
- On February 13, 2003 Cableuropa, S.A.U., signed all the necessary documentation with the syndicate of banks, allowing it to fund partially the acquisition of Notes from Grupo Corporativo ONO, S.A. by drawing euro 22.1 million from the Senior Bank

Facility, and by using funds of the "escrow account," amounting to euro 25.2 million. A number of additional amendments were made to the Senior Bank Facility as part of the approval process for the transaction.

- In addition, Cableuropa and its subsidiaries agreed with ONO Finance, PLC the required amendments to the Multi-Borrower Credit Facilities to reflect the partial cancellation of the Notes of Cableuropa, S.A.U. and its subsidiaries with ONO Finance, PLC.
- The cancellation of the Notes and the amendment to the Multi-Borrower Credit Facilities generated an extraordinary gain which is included under the caption "Net extraordinary income" of the 2003 consolidated statement of profit and loss.

	Euro thousand			Extraordinary gain
	Cancelled MBCE	Deferred expenses cancelled	Cost	
EUR Notes 13% due 2009.....	79,372	4,082	23,756	51,534
USD Notes 13% due 2009.....	205,047	9,331	50,628	145,088
EUR Notes 14% due 2010.....	86,298	2,402	25,828	58,068
EUR Notes 14% due 2011.....	37,947	5,337	11,358	21,252
USD Notes 14% due 2011.....	126,245 ⁽¹⁾	17,403	32,245	76,597
	534,909	38,555	143,815	352,539 ⁽²⁾

(1) Includes euro 18.5 million corresponding to deferred income due to unrealized exchange rate differences.

(2) The net extraordinary gain, considering the estimated foreign exchange rate loss under the swap agreements (euro 38.9 million, see note 13) was euro 313.6 million.

(e) State Subsidies

Starting in 2001 and as part of each year's Spanish Programme for the Promotion of Technology Innovation (PROFIT), Cableuropa, S.A.U. obtained subsidies from the Spanish Ministry of Science and Technology to finance the development of certain technology innovation projects. These subsidies are characterized as long term loans maturing in five equal annual installments starting on the third anniversary of the grant. These loans bear no interest and the obligations thereunder are supported by bank guarantees. These loans expire between 2004 and 2010. As of December 31, 2003 a total of euro 26.1 million have been granted (euro 17.1 million as of December 31, 2002) of which euro 1.0 million is pending to be drawn and euro 0.7 million is repayable in 2004. CABLEUOPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

12. Accounts payable

	Euro thousand	
	2003	2002
Commercial Suppliers	100,283	97,602
Taxes and social security (see note 20)	13,484	19,702
Fixed asset suppliers	61,501	97,296
Fixed asset suppliers—related parties (see note 22).....	28,764	18,328
Creditors—related parties (see note 22)	6,949	395
Other short term creditors	9,991	12,747
	220,972	246,070

13. Other current liabilities

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Cross-currency swaps.....	37,507	—
Other	13,995	11,117
	51,502	11,117

Cross-currency swaps

In May 2000 and July 2002, the Group entered into different cross-currency swap agreements to hedge part of its USD Notes related debt.

In May 2000 the Group signed swap agreements ("the 2000 swap agreements") to hedge the principal amount of the Group's 2009 USD Notes related debt until May 2004 (the first call date of the 2009 Notes) and all coupon payments on these Notes until that date (other than those provided for under the escrow account agreements).

In July 2002, the Group entered into a further swap agreement ("the 2002 swap agreement") to hedge 50% of the coupon payments on the 2011 USD Notes related debt until the first call date thereunder of February 2006.

The nature of the swap agreements is such that if there are significant increases in the value of the euro against the USD, the Group is required to advance margin calls to the counterparty banks. In the first half of 2003, the Group advanced a total of euro 39.1 million.

After the partial cancellation of the Notes (see note 11.d) in February 2003, the Group faced a potential exchange rate loss for the ineffective part of the hedge amounting to euro 38.9 million, included under the caption "Net extraordinary income/expense"

In June 2003, in view of the significant appreciation of the euro against the USD, the Group purchased an euro call/USD put option with the strike at USD 1.1729 per euro 1.00 on April 29, 2004 (see note 4), which protects the Group from any appreciation of the euro against the USD above that rate.

In July 2003, the Group unwound 25% on the principal of the 2000 swap agreements and 100% of the coupons remaining, corresponding to the interest payments in November 2003 and May 2004. Accordingly, in line with the partial unwind of the principal of the swaps, 25% of the option was sold back to the counterparty banks. In August 2003, the Group unwound a further 25% on the principal of the cross-currency swaps and on the option. Therefore, after carrying out both transactions, 50% of the 2000 principal swap agreements and option are outstanding as of December 31, 2003.

Since June 2003, the 2000 swap agreements are treated as non-hedging instruments whereas the 2002 swap agreement is partially treated as a hedging agreement in as much as it covers the debt related to the coupon payments on the 2011 USD Notes until February 2006.

The total remaining potential liability related to these derivative financial instruments (at the rate as of December 31, 2003) is fully accounted for in an amount of euro 37.5 million included in the caption "Other current liabilities" and euro 0.9 million included under "Other long term liabilities." The maximum potential cash effect of these losses would be reduced by euro 19.6 million since this amount has already been advanced to the swaps counterparties and included in the caption "Short term investments, net" (see note 4).

The net losses related to these financial instruments, which occurred between February 13, 2003 and December 31, 2003, amount to euro 17.6 million, net of the positive effect of the related liability's decrease due to the depreciation of the USD, and were recorded under the caption "Net financial expense" (note 21.e) of the consolidated statement of profit and loss.

14. Other long term liabilities

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Deferred income.....	36,864	26,324
Equity value certificates	25,462	25,462
Non-cash deferred tax liabilities ⁽¹⁾	72,429	68,802
Other	883	—

Total	135,638	120,588
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(1) Offset by the related non-cash deferred tax assets in note 9. See also note 20.

(a) Deferred income

Deferred income as of December 31, 2003 mainly comprises the unrealized gains on exchange rate translation associated to the Multi-Borrower Credit Facilities (see note 11).

(b) Equity value certificates (EVCs)

Together with the issue of the 2009 Notes and the 2011 Notes, ONO Finance, PLC issued EVCs. These EVCs are guaranteed by Cableuropa, S.A.U.

The EVCs entitle their holders to receive cash in an amount equal to the market value of a number of shares of Cableuropa, S.A.U. This number of shares can be diluted in relation to the percentage of Cableuropa, S.A.U.'s total shares under certain circumstances.

An analysis of the outstanding EVCs, as of December 31, 2003 and 2002 is as follows:

	<u>Number of EVCs</u>	<u>Liability in euro thousand</u>	<u>Maturity⁽¹⁾</u>
EVCs USD 2009	275,000	5,926	31 May 2009
EVCs EURO 2009	125,000	2,859	31 May 2009
EVCs USD 2011	200,000	9,779	15 February 2011
EVCs EURO 2011	150,000	6,898	15 February 2011
		25,462	

(1) Certain circumstances such as an IPO of Cableuropa may trigger a payment event prior to maturity

At the time of each EVC issue and each EVC agreement, the Group accounted for a liability in an amount equal to the EVC proceeds received. The value of the liability derives from the estimated market value of Cableuropa, S.A.U. shares, and accordingly the book amount of these liabilities may be subject to changes.

15. Provisions for commitments and contingencies

	<u>Balance at 12.31.2002</u>	<u>Additions</u>	<u>Euro thousand Amounts used</u>	<u>Disposals</u>	<u>Balance at 12.31.2003</u>
Provision for discontinuing operations in Portugal	10,922	—	(3,960)	—	6,962
Other provisions for liabilities and charges	9,094	2,100	(4,081)	(2,726)	4,387
	20,016	2,100	(8,041)	(2,726)	11,349

(a) Provision for discontinued operations in Portugal

As of December 31, 2002 the Group accounted for a provision to cover losses and contingencies derived from the decision of discontinuing operations in Portugal, amounting to euro 10.9 million. Out of this amount, in 2003 euro 4.0 million have been applied to cover the dismantling costs.

(b) Other provisions for liabilities and charges

The caption "Other provisions for liabilities and charges" as of December, 31 2002 included redundancy costs related to the "Expediente de Regulación de Empleo" (regulated reduction of workforce) in Cableuropa, S.A.U. announced on July 31, 2002. Under this agreement, 322 employees had been made redundant by December 31, 2003 and euro 4.3 million had been paid as redundancy costs (236 employees and euro 3.4 million by December 31, 2002). This workforce reduction formally ended on December 31, 2003.

Furthermore in 2003 the Group launched an Incentive plan aimed to attract and retain certain key employees and directors. The eligible employees have the right, subject to certain conditions, to receive an extraordinary cash bonus after three years since granted. The accrued provision as of December 31, 2003, amounts to euro 2.1 million.

16. GCO loan

On February 13, 2003, as part of the process of the cancellation of the Notes (see note 11.d) Grupo Corporativo ONO, S.A. granted a loan to the Group amounting to euro 98.5 million. This loan, which ranks subordinate to the Senior Bank Facility, but *pari passu* to the Multi-Borrower Credit Facilities, bears annual interest of 7.5% and matures on March 1, 2011 or on an earlier date if (i) all the obligations from financial contracts and Multi-Borrower Credit Facilities have been satisfied or (ii) a General Shareholder Meeting is announced to approve the capitalization of this debt as capital.

17. Participative loan

In 2002, the Group's sole shareholder, Grupo Corporativo ONO, S.A. received euro 300 million from its shareholders as equity and contributed the same amount to the Group as participative loans (one loan of euro 100 million on January 31, 2002 and another loan of euro 200 million on March 30, 2002).

The participative loans will accrue a variable interest rate of 0.25% per annum on the volume of revenues of the Group, once revenues have surpassed euro 747 million on a quarterly basis.

The interest will not be paid to Grupo Corporativo ONO, S.A. except when all amounts related to the Senior Bank Facility and any other senior debt of the Cableuropa Group (including principal and interest), have been fully met. Interest added to the principal will be met by a one-off payment on the expiry date of the loan (December 31, 2011).

18. Shareholders' equity

	Euro thousand (except number of shares)					Total
	Number of shares	Common stock	Share premium	Accumulated deficit	Net profit/(loss) for the year	
Balance, December 31, 2001	484,662,719	484,663	337,746	(194,645)	(216,920)	410,844
Transfer of 2001 net loss	—	—	—	(216,920)	216,920	—
Net loss for the year	—	—	—	—	(194,642)	(194,642)
Balance, December 31, 2002	484,662,719	484,663	337,746	(411,565)	(194,642)	216,202
Transfer of 2002 net loss	—	—	—	(194,642)	194,642	—
Net profit for the year	—	—	—	—	97,019	97,019
Balance, December 31, 2003	484,662,719	484,663	337,746	(606,207)	97,019	313,221

(a) Common stock

The common stock in Cableuropa, S.A.U. as at December 31, 2003 is 484,662,719 euros and consist of 484,662,719 fully subscribed and paid ordinary bearer shares with a par value of euro 1.00 each.

(b) Shareholder

The sole shareholder of the Group's parent company (Cableuropa, S.A.U.) as of December 31, 2003 is Grupo Corporativo ONO, S.A.

In January 2002, all the shareholders of Cableuropa, S.A.U. exchanged their shares in this company for shares in Grupo Corporativo ONO, S.A. through a capital increase in the latter, leaving Grupo Corporativo ONO, S.A. as the sole shareholder of Cableuropa, S.A.U. This transaction was registered with the Mercantile Register in Madrid in January 2002.

On the same date, the shares of Cableuropa, S.A.U. owned by Grupo Corporativo ONO, S.A. were pledged to secure the Senior Bank Facility mentioned in note 11.

The shareholders of Grupo Corporativo ONO, S.A. as of December 31, 2003 were the following:

Shareholder	Voting Shareholdings %	Non voting Shareholdings %	Total ownership (%)
Spanish Telecommunications Limited, S.à.r.l. ⁽¹⁾	44.04	0.00	44.04
Cántabra de Inversiones, S.A. ⁽²⁾	17.05	2.94	19.99
Ferrovial Telecomunicaciones, S.A.	9.27	1.39	10.66
Val Telecomunicaciones, S.L. ⁽³⁾	9.43	0.44	9.87
Grupo Multitel, S.A.	9.25	0.24	9.49
GE Structured Finance, Inc.	0.00	3.13	3.13
Bas Capital Funding Corporation ⁽⁴⁾	0.00	1.42	1.42
Capital Communications Cdpq, Inc	0.00	1.40	1.40
Total	89.04	10.96	100.00

(1) Company whose ultimate shareholders are Bank of America, GE Capital and CDPQ.

(2) Company wholly owned by Banco Santander Central Hispano.

(3) Company which aggregates the main former local shareholders of the cable multiservice operators.

(4) Company whose ultimate shareholder is Bank of America.

(c) Reserves (accumulated losses) in companies consolidated by the acquisition method.

As of December 31, 2003 and 2002 the reserves (accumulated deficit) in companies consolidated by the acquisition method are as follows:

	Balance at 12.31.2002	Euro thousand Merger movements	Transfer of 2002 losses	Balance at 12.31.2003
Mediterránea Sur Sistemas de Cable, S.A.	44,451	—	31,109	75,560
Mediterránea Norte Sistemas de Cable, S.A.	38,009	—	28,219	66,228
Región de Murcia de Cable, S.A.	37,868	—	20,643	58,511
Valencia de Cable, S.A.	53,231	—	32,931	86,162
Ononet Comunicaciones, S.A.U.	1,634	(1,634)	—	—
Merlín Servicios Portadores, S.A.U.	3,656	(3,656)	—	—
Argos Telecomunicaciones, S.A.U.	(62)	62	—	—
Univertel Comunicações Universais, S.A.	4,575	—	4,021	8,596
Hydra Servicios de Atención al Cliente, S.A.U.	135	(135)	—	—
NSEC International, B.V.	11	—	(130)	(119)

183,508 (5,363) 116,793 294,938

(d) Distribution of net profit

The Board of Directors of the Group's parent company proposes that the net profit for the financial year be transferred to compensate the accumulated deficit.

(e) Approved capital increases.

On November 25, 2003 the Shareholder's meetings of four of the Group companies approved the reduction and subsequent increase of the share capital of these companies in order to reduce their cumulative losses, as shown in the table below:

	<u>Capital reduction</u>	<u>Euro thousand</u> <u>Capital increase</u>		<u>Total capital increase</u>
		<u>Capitalisation of credits</u>	<u>Cash contributions</u>	
Mediterránea Sur Sistemas de Cable, S.A.	(45,092)	44,025	975	45,000
Mediterránea Norte Sistemas de Cable, S.A.	(38,910)	44,024	976	45,000
Región de Murcia de Cable, S.A.	(40,790)	24,985	15	25,000
Valencia de Cable, S.A.	(56,051)	35,327	673	36,000

These transactions are expected to be finalised in 2004 (note 27.b). CABLEEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

19. Third party guarantees and other contingent liabilities

Certain Group companies have obtained performance bonds from Spanish credit institutions to guarantee compliance with specific commitments related to network construction, among others with the Ministry of Science and Technology, City Councils and other organizations related to the cable television and telecommunications licenses.

The breakdown of the commitments under such performance bonds is set out below:

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Ministry of Science and Technology	41,911	44,552
City Councils and other organizations.....	7,853	9,214
	49,764	53,766

Due to the partial conversion of cable telecommunications licenses into telecommunications service licenses, the Group considers that it will be released from the need to provide a portion of these performance bonds within the short term.

Out of the euro 41.9 million guarantees to the Ministry of Science and Technology, as of December 31, 2003 euro 21.6 million (euro 17.5 million as of December 31, 2002) correspond to bank guarantees for the repayment of the state subsidies described in note 11.e.

20. Tax situation

(a) Tax consolidation

In 2002, Grupo Corporativo ONO, S.A., the sole shareholder of the Group's parent company presented its application to the tax authorities for the tax consolidation regime. The Group consolidates for tax purposes from January 1, 2003.

The parent company for tax consolidation purposes is Grupo Corporativo ONO, S.A. and the Group companies included in the tax group are:

- Cableuropa, S.A.U.
- Valencia de Cable, S.A.
- Mediterránea Norte Sistemas de Cable, S.A.
- Mediterránea Sur Sistemas de Cable, S.A.
- Región Murcia de Cable, S.A.

(b) Corporate Income Tax

Corporate income tax for the year is calculated based on book result before taxes obtained by the Group companies, as adjusted by permanent differences arising with respect to reported profit or loss, which is considered to be taxable income, less any tax credits or deductions.

The reconciliation of taxable and reported profit at December 31, 2003 is as follows:

	<u>Euro thousand</u>		<u>Amount</u>
	<u>Increase</u>	<u>Decrease</u>	
Reported profit before taxes			150,008
Permanent differences:			
(a) arising in individual companies	32,670	(15,459)	17,211
(b) arising from consolidation adjustments	16,117	(19,067)	(2,950)
Taxable profit			164,269

The estimated tax expense for the year 2003 amounts to euro 57.5 million and is the result of applying a 35% tax rate to the taxable result. Additionally, an income tax credit of euro 4.5 million has been recorded in 2003 in relation to previous years' tax losses.

(c) The movement in deferred tax assets and deferred tax liabilities in 2003 is as follows:

	<u>Opening balance</u>				<u>Euro thousand</u>			<u>Closing balance</u>
	<u>Curre</u>	<u>Long</u>	<u>Total</u>	<u>Merge</u>	<u>Income tax credit/(charge)</u>			
					<u>nt</u>	<u>term</u>	<u>rs</u>	
<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>	<u>rs</u>
Tax credit up to 1999	38,981	—	38,981	—	4,507	(43,488)	—	—
Tax credit 2000	31,868	56,149	88,017	(42)	—	(14,007)	(12,772)	61,196
		132,84	132,84					
Tax credit 2001	—	3	3	(27)	—	—	—	132,816
		123,44	123,44					
Tax credit 2002	—	2	2	—	—	—	—	123,442
		312,43	383,28					
Total Tax credits	70,849	4	3	(69)	4,507	(57,495)	(12,772)	317,454
Deferred tax liabilities		(15,37	(19,07					
2000	(3,696)	9)	5)	42	—	—	—	(19,033)
Deferred tax liabilities		(35,76	(35,76					
2001	—	2)	2)	27	—	—	—	(35,735)
Deferred tax liabilities		(17,66	(17,66					
2002	—	1)	1)	—	—	—	—	(17,661)
Total deferred tax		(68,80	(72,49					
liabilities	(3,696)	2)	8)	69	—	—	—	(72,429)

Total net tax credit.....	67,153	243,632	310,785	—	4,507	(57,495)	(12,772)	245,025
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The Group has recorded tax credits arising from the tax loss carry forwards from 1999 to 2002 (see note 9).

In accordance with current Spanish accounting legislation, in 2002, on top of the euro 123 million tax credit corresponding to the 2002 net losses, the Group recognized the tax credits relating to 2000, as the circumstances that led to these credits not being registered in 2000 changed significantly. The tax credit corresponding to 2000 taxable losses amounted to euro 88 million, as the result of applying 35% to the taxable losses.

(d) Tax loss carry forwards

At December 31, 2003 the Group has the following tax loss carry forwards to be compensated by profits obtained in 2003 (see note 20.c above) and in future years:

Year	Euro thousand
1992	13
1993	206
1994	752
1995	3,103
1996	6,860
1997	11,107
1998	10,759
1999	104,465
2000	251,437
2001	366,415
2002	352,529
	1,107,646

In accordance with current legislation, tax-loss carry forwards must be offset within fifteen years from the first year profits are obtained for companies incorporated after January 1, 1996. Companies incorporated before that date can offset tax-loss carry forwards in the fifteen years following the year in which they were recorded. The Directors of Cableuropa, S.A.U. consider that these amounts will be recovered within the deadlines established by law.

(e) Taxes and social security

Short term balances between the Group and the tax authorities and Social Security as at December 31, 2003 and 2002 are as follows:

	Euro thousand	
	2003	2002
Accounts receivable from the tax authorities and Social Security (see note 5)		
VAT receivable.....	23,663	54,435
Withholdings and interim payments made	9	1,488
Short term tax credits.....	—	70,849
Others.....	1,556	2,823
	25,228	129,595
Accounts payable to the tax authorities and Social Security (see note 12)		
VAT payable.....	10,829	10,370
Personal income tax withholdings payable.....	1,446	3,225
Social security payable	1,209	2,411

Deferred tax liability.....	—	3,696
	13,484	19,702

The Group's tax returns for most of the taxes to which it is liable are open to inspection for all years which have not become statute-barred. Group management do not expect any significant liabilities to arise in the event of an inspection of these years.

21. Income and expenses

(a) Revenues

	<u>Euro thousand</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Residential services			
Telephony.....	184,035	133,072	79,342
Television.....	83,032	62,336	38,305
Internet.....	62,299	39,056	18,104
Business and other services.....	29,221	18,974	7,854
	358,587	253,438	143,605

(b) Cost of services

Direct cost of sales mainly includes programming, interconnection and connectivity expenses.

(c) Selling, general and administrative expenses

	<u>Euro thousand</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Wages and salaries.....	50,842	53,673	51,713
Employer's Social Security contributions and other employee costs.....	17,001	15,586	23,260
Taxes other than income tax.....	5,262	4,490	2,597
Other operating expenses.....	93,014	107,072	110,896
	166,119	180,821	188,466

In 2003, 2002 and 2001, the Group's average number of employees was as follows:

<u>Professional category</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Executives.....	49	59	65
Technicians and middle management.....	1,413	1,366	1,628
Administrative staff.....	291	240	103
	1,753	1,665	1,796

An analysis of Other operating expenses is as follows:

	<u>Euro thousand</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>

Rental expenses	23,217	26,617	19,571
Professional services	17,863	25,571	37,398
Marketing and selling expenses	12,288	20,083	18,447
Other services	17,453	13,431	19,011
Provision for doubtful accounts	13,803	13,338	8,154
Supplies	5,339	4,981	6,315
Bank commissions	1,806	1,484	612
Insurance premiums	1,102	980	740
Other expenses	143	587	648
	93,014	107,072	110,896

(d) Costs capitalized as property and equipment and start-up costs

The expenses associated with the development and construction of the Group's networks are capitalized as an addition in the cost of the network. These expenses are recorded under the heading "Costs capitalized as property and equipment and start-up costs" in the consolidated statements of profit and loss. Furthermore, up to 2002, a portion of operating expenses was capitalized as start-up costs since several Group companies were still in a pre-maturity stage during 2001.

(e) Net Financial (expense)/income

	Euro thousand		
	2003	2002	2001
Financial income:			
Interest on restricted cash deposits (see note 4).....	79	496	2,697
Interest on fixed-income securities	242	649	5,177
EVC revaluation income (see note 14).....	—	51,492	—
Exchange rate differences—gains	1,937	19,096	33,246
Other financial income	1,069	2,418	598
	3,327	74,151	41,718
Less financial expense:			
Bank commissions	3,677	7,949	9,279
Amortization of deferred expenses.....	10,024	13,347	8,225
Interest on Debt related to notes issues	66,951	125,093	129,925
Interest on Senior Bank Facility.....	25,511	11,602	5,021
Interest on GCO loan.....	6,611	—	—
Loss on derivative instruments (see note 13)	17,647	—	—
Exchange rate differences—losses.....	1,509	9,167	29,047
Other financial expense.....	1,645	3,754	7,091
	133,575	170,912	188,588
Net financial expense	(130,248)	(96,761)	(146,870)

(f) Net extraordinary income/(expense)

	Euro thousand		
	2003	2002	2001
Extraordinary income:			
Cancellation of the Notes (see note 11.d).....	313,619	—	—
Gains on disposals of tangible assets	—	—	1,047
Application of the provision for phantom plan	—	16,660	749
Reversal of allowance for doubtful accounts	4,092	—	—

Other extraordinary income	3,185	353	2,453
	320,896	17,013	4,249
Less extraordinary expenses:			
Loss on disposal of fixed assets	1,604	—	524
Provision for guarantee execution risks and others	—	—	3,000
Scrapping of tangible assets	—	—	932
Write off and provision for depreciation of intangible assets	6,163	—	—
Write off and provision for depreciation of tangible asset	14,376	34,281	—
Write off of start-up costs (see notes 3.g and 6)	—	139,859	—
Provision for discontinued operations in Portugal (see note 15)	—	10,922	—
Other extraordinary expenses	493	3,714	3,134
	22,636	188,776	7,590
Net extraordinary income/(expense)	298,260	(171,763)	(3,341)

Provision for share-based compensation plan (Phantom Plan)

The "Phantom Plan" provides certain eligible employees and directors with the right, subject to vesting, to receive the difference between the fair value of certain number of shares of Cableuropa, S.A.U. (estimated by the Board of Directors) and their exercise price. The maximum period to exercise the options is 10 years. The liability under the Phantom Plan is recalculated annually. Changes in the estimated fair value of the options are recognized fully in the statements of profit and loss in the year incurred.

Options granted under the Phantom Plan vest progressively in equal thirds on the 3.5, 4.5 and 5.5 anniversaries of the effective date of grant.

As of December 31, 2002, as a result of the decrease in the fair value of the shares of Cableuropa, S.A.U. for the purposes of the Phantom Plan as determined by the Board of Directors of the Company, an extraordinary income of euro 16.7 million was recorded in the consolidated statements of profit and loss.

As of December 31, 2003, for the purposes of the Phantom Plan, the Group's Board of Directors has considered that the fair value of the shares of Cableuropa, S.A.U. has not varied. Furthermore, in 2003 certain directors, former directors and executives of the Group have been granted options referenced to the value of Grupo Corporativo ONO, S.A. shares.

21. Income and expenses

A summary of the Phantom Plan is as follows:

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Number of options</u>	<u>Weighted average exercise price (euro)</u>	<u>Number of options</u>	<u>Weighted average exercise price (euro)</u>
Outstanding at beginning of period	13,716,373	1.87	15,210,991	1.90
Granted during period	9,978,951	1.00	—	—
Cancelled during period	(9,534,119)	1.99	(1,494,618)	2.69
Outstanding at end of period	14,161,205	1.13	13,716,373	1.87
Vested at end of period	9,320,212	1.14	5,948,728	1.16

22. Balances and transactions with Group companies and related parties

The balances as at December 31, 2003 and 2002 with group companies and related parties and volumes of transactions carried out with them in 2003, 2002 and 2001 are set out below:

<u>Balances (excluding participative loans)</u>	<u>Accounts receivable (note 5)</u>	<u>Tax Balances⁽¹⁾</u>	<u>Euro thousand</u>			<u>Interest payable (note 12)</u>
			<u>Commercial suppliers (note 12)</u>	<u>Fixed assets suppliers (note 12)</u>	<u>GCO loan (note 16)</u>	
Grupo Corporativo ONO, S.A.	—	12,772	—	—	98,464	6,611
Spanish Telecommunications Limited, S.à.r.l.....	365	—	111	—	—	—
Unión temporal de empresas ⁽²⁾	85	—	—	—	—	—
Grupo Multitel, S.A.	391	—	49	—	—	—
Grupo Ferroviario.....	—	—	178	28,764	—	—
Total balances at 12.31.2003	841	12,772	338	28,764	98,464	6,611
Total balances at 12.31.2002	31,853	—	395	18,328	—	—

(1) Balance in relation to tax consolidation since 2003, included under the caption "Financial assets" (see note 9).

(2) Valencia de Cable, S.A., Mediterranea Norte Sistemas de Cable, S.A. y Mediterranea Sur Sistemas de Cable, S.A., Unión temporal de empresas, Ley 18/1982.

<u>Transactions</u>	<u>Euro thousand</u>			
	<u>Services received</u>	<u>Long term assets</u>	<u>Interest income</u>	<u>Interest expense</u>

Other related parties				
Grupo Corporativo ONO, S.A.....	2,000	2,098	119	6,611
Grupo Ferrovial.....	—	33,039	—	—
Total transactions in 2003.....	2,000	35,137	119	6,611
Total transactions in 2002.....	1,031	58,508	476	—
Total transactions in 2001.....	1,330	96,272	—	—

(a) Balances and transactions with the sole shareholder Grupo Corporativo ONO S.A.

In addition to the shareholder's and participative loan contracts detailed in notes 16 and 17, on March 30, 2002, the Group entered into a management contract with Grupo Corporativo ONO, S.A., its sole shareholder. The related fees amount to euro 2 million and euro 0.3 million in 2003 and 2002, respectively.

(b) Transactions with shareholders of Grupo Corporativo ONO, S.A.

During the course of normal business the Group companies enter into transactions with associated companies under conditions that are at least as favorable to the Group as those offered by third parties. These transactions are approved by the Board of Directors.

Some of the shareholders of Grupo Corporativo ONO, S.A. or related parties to them are involved in some of the financing operations of the Group described in note 11.

23. Directors' Remuneration

The amount accrued to members of the Board of Directors for fees and other remuneration totaled euro 1.2 million in 2003 (euro 1.1 million in 2002). In addition, at December 31, 2003 the members of the Board of Directors of Cableuropa, S.A.U. had been granted 4,637,037 options within the framework of the Phantom Plan (2,433,497 at December 31, 2002).

24. Director's shareholdings, positions, functions and activities

In compliance with article 127 ter.4 of the Spanish Corporate Law as modified by Law 26/2003 dated July 17, 2003, aiming to improve the company's transparency, the details of the different shareholdings owned, positions and functions held by the directors of the Group's parent company in companies with the same, analog or complementary activity to the one carried out by the Group are set out below:

Director	Company	Activity	Ownership	
			%	Position
Leopoldo Calvo-Sotelo	Grupo Corporativo ONO, S.A.	Cable telecommunications	—	Member of the Board of Directors
Richard Alden	ECCA	Cooperation of cable operators in Europe	—	Member of the Board of Directors
	Grupo Corporativo ONO, S.A.	Cable telecommunications	—	Chief Executive Officer
Multitel Holdings, S.L.	Grupo Corporativo ONO, S.A.	Telecommunications holding company	—	Chairman
	Grupo Multitel, S.A.	Consultancy to telecommunications companies	—	Chairman and Chief Executive Officer
	Cable Unión, S.L.	Consultancy to telecommunications companies	53.60	—
Nicolás Villén	Grupo Corporativo ONO, S.A.	Cable telecommunications	—	Member of the Board of Directors
Raimo Lindgren	Grupo Corporativo ONO, S.A.	Cable	—	Member of the Board of

Mr. Leopoldo Calvo Sotelo and Mr. Nicolás Villén declare to have non significant shareholdings in quoted companies with the same, analog or complementary activity to the one carried out by the Group.

25. Auditors' remuneration

In compliance with the 44/2002 Law of Finance, disclosure is made of the remuneration of all of the companies integrated in the PricewaterhouseCoopers' worldwide organization of which the amount for other audit services includes the remuneration with respect to the audit of financial statements filed with the SEC. All 2003 auditors' remuneration has been approved by the Audit Committee of Grupo Corporativo ONO.

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Audit services	196	196
Other audit services	154	261
	350	457

26. Environmental matters

The Group complies with the main applicable environmental legislation and has gradually put in place the necessary procedures to manage environmental risks and conduct the appropriate corrective measures to minimise the environmental impact of its operations.

The Group considers that there is no significant contingency or potential liability in relation to environmental matters thus in 2001, 2002 and 2003, no provision has been accrued in this respect.

27. Subsequent events

(a) Acquisition of Retecal by the Group's sole shareholder

Grupo Corporativo ONO, S.A., the sole shareholder of the Group, announced on February 10, 2004, that it had completed the purchase of 61.0% of Retecal, Sociedad Operadora de Telecomunicaciones de Castilla y León, S.A. ("Retecal"), the cable operator for the region of Castilla y León, in exchange for 8.4% of the share capital of Grupo Corporativo ONO, S.A., post the acquisition.

The new beneficial shareholder of Grupo Corporativo ONO, S.A. after the purchase of 61% of Retecal, is Sodinteleco, S.L. ("Sodinteleco"). Sodinteleco is a holding company owned by most of the former shareholders of Retecal. These shareholders consist primarily of regional financial institutions, construction companies and local businesses.

(b) Capital increases

On November 25, 2003 the Shareholder's meetings of four of the Group companies approved the reduction and subsequent increase of the share capital of the companies, as detailed in note 18.d. The final amounts of the capital increases subscribed by the relevant shareholders in February 2004 are as follows:

	<u>Capital reduction</u>	<u>Compensation of credits</u>	<u>Euro thousand Capital increase</u>		<u>Total capital increase</u>
			<u>Paid</u>	<u>Pending payment</u>	
Mediterránea Sur Sistemas de Cable, S.A.	(45,092)	44,025	244	731	45,000
Mediterránea Norte Sistemas de Cable, S.A.	(38,910)	44,024	244	732	45,000
Región de Murcia de Cable, S.A.	(40,790)	24,985	—	—	24,985
Valencia de Cable, S.A.	(56,051)	35,327	168	505	36,000

Following the transactions above, Cableuropa, S.A.U. became the sole shareholder of Región de Murcia de Cable, S.A. CABLEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

28. Statements of source and application of funds for the years ended December 31, 2003 and 2002

Application of funds	Euro thousand			Sources of funds	Euro thousand		
	2003	2002	2001		2003	2002	2001
Funds absorbed by operations	137,406	134,261	210,990	Funds provided by operations	—	—	—
Additions to:							
Start up costs	1,607	13,243	38,402	Participative loans.....	—	300,000	—
Intangible assets.....	5,755	5,777	12,680	GCO loan.....	98,464	—	—
Tangible assets.....	198,598	252,873	359,664	Increase in long term debts....	254,070	171,077	569,908
				Increase in long term			
Financial assets.....	5,020	—	696	liabilities.....	3,627	—	—
				Proceeds from disposal of			
Deferred expenses.....	3,352	5,242	85,449	tangible assets.....	9,314	5,610	969
Share capital decrease	—	—	7,118				
				Short term portion of			
Acquisition of Notes.....	143,815	—	—	intangible assets.....	1,542	4,039	4,524
Short term portion of long				Short term portion of financial			
term debt	2,516	4,604	3,670	assets	—	67,928	25,982
Change in working capital due							
changes in scope of							
consolidation.....	—	—	6,424				
Application of provision for							
commitments.....	8,041	—	—				
Total applications.....	506,110	416,000	725,093	Total sources.....	367,017	548,654	601,383
Surplus of sources over							
application of funds				Excess of applications over			
(increase in working capital)				sources of funds (reduction in			
.....	—	132,654	—	working capital)	139,093	—	123,710

Change in working capital	Euro thousand					
	2003		2002		2001	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
Cash	57	—	646	—	—	2,858
Short term investments.....	—	26,054	11,292	—	—	60,988
Accounts receivable	—	135,036	65,760	—	23,534	—
Other current assets.....	—	3,893	—	7,481	—	1,762
Contributions due from shareholders	—	—	—	2	—	149,998
Current liabilities.....	25,833	—	62,439	—	68,362	—
Total	25,890	164,983	140,137	7,483	91,896	215,606
Change in working capital.....	—	139,093	132,654	—	—	123,710

<u>Sources generated/(applied to) operations</u>	<u>Euro thousand</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Profit/(loss) attributable to the parent company.....	97,019	(194,642)	(216,920)
Profit/(loss) attributable to minority shareholders	—	(818)	(1,723)
Amortization of fixed assets and start-up costs.....	102,422	98,303	80,773
Amortization of goodwill on consolidation.....	13,390	13,434	13,753
Amortization of deferred expenses.....	10,088	14,156	8,223
Write-off of start-up costs.....	781	139,859	—
Write-off and provision for intangible assets.....	6,163	—	—
Write-off and provision for tangible assets.....	14,376	34,281	2,000
Loss/(gain) on disposal of assets.....	1,545	—	(969)
Impairment of goodwill	—	754	—
Provision for Incentive Plan.....	2,100	—	—
Effect of revaluation of Phantom Plan.....	—	(16,660)	—
Cancellation of provision for liabilities and charges.....	(2,726)	(1,371)	6,756
Provision for discontinuing operations in Portugal	—	10,922	—
Gain from cancellation of the Notes.....	(352,540)	—	—
Capitalization of tax credit	—	(211,459)	(97,083)
Income tax balances	(12,774)	36,736	—
Exchange rate differences.....	(18,133)	(9,966)	(5,800)
Other long term financial loss.....	883	—	—
Other extraordinary expenses	—	3,714	—
Effect of revaluation of EVC	—	(51,492)	—
Changes in shareholding of subsidiaries	—	(12)	—
Total sources applied to operations.....	(137,406)	(134,261)	(210,990)

CABLEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

29. Differences between Spanish and US GAAP and other required disclosures

The consolidated financial statements of the Group are prepared in accordance with Spanish GAAP, which differs in certain material respects from US GAAP. A description of these differences and a reconciliation of net profit/loss and shareholders' equity from Spanish GAAP to US GAAP are presented below.

I. Reconciliation of shareholders' equity and net profit/(loss)

Reconciliation of shareholders' equity:

	<u>Euro thousand</u>	
	<u>At December 31, 2003</u>	<u>At December 31, 2002</u>
Shareholders' equity in accordance with Spanish GAAP.....	313,221	216,202
US GAAP adjustments:		
Stock issuance costs, net	(a) (2,966)	(4,673)
Foreign exchange deferred income	(b) 36,864	26,324
Valuation allowance on tax credits	(c) (154,678)	(146,179)
Research and development costs.....	(d) (21)	(56)
Capitalization of interest	(e) 27,475	24,360
Depreciation of tangible assets	(f) (21,325)	(22,983)
Stock-based compensation.....	(g) —	—
Goodwill.....	(h)(i) 239,222	219,387
Derivative financial instruments.....	(j) (5,114)	7,045

Provision for discontinued operations in Portugal	(k)	(269)	798
Accrued expenses.....	(l)	1,700	—
Minority interests related to US GAAP adjustments	(m)	(602)	(213)
Net deferred tax effect of US GAAP adjustments.....	(c)	(5,004)	(4,284)
Shareholders' equity in accordance with US GAAP.....		428,503	315,728

Statements of changes in Shareholders' equity under US GAAP

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Shareholders' equity under US GAAP as of January 1	315,728	443,805
Less: stock issuance cost	(4)	(993)
Other comprehensive income.....	(1,684)	(1,684)
Net profit/(loss) for the year	114,463	(125,400)
Shareholders' equity under US GAAP as of December 31	428,503	315,728

Reconciliation of net profit/(loss):

	<u>Euro thousand</u>		
	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net profit/(loss) in accordance with Spanish GAAP.....	97,019	(194,642)	(216,920)
US GAAP adjustments:			
Reversal of amortization of stock issuance costs	(a) 1,711	1,709	1,314
Foreign exchange deferred income	(b) 10,540	26,259	(5,563)
Valuation allowance on tax credits	(c) (8,499)	(90,585)	(31,696)
Reversal of amortization research and development costs	(d) 35	15	34
Capitalization of interest costs.....	(e) 4,561	6,281	11,081
Amortization of capitalized interest	(e) (1,446)	(1,170)	(617)
Depreciation of Property and equipment.....	(f) 1,658	14,870	(18,832)
Stock-based compensation.....	(g) —	(2,833)	(8,448)
Goodwill related to corporate reorganization	(h) —	—	(14,003)
Amortization on Goodwill.....	(i) 19,835	19,870	—
Cross-currency swaps.....	(j) (10,475)	(9,688)	15,048
Provision for discontinued operations in Portugal	(k) (1,067)	798	—
Accrued expenses.....	(l) 1,700	—	—
Start-up costs	(n) —	(11,970)	(33,514)
Reversal of amortization of start-up costs	(n) —	139,859	25,979
Minority interests related to US GAAP adjustments	(m) (389)	(1,826)	181
Net deferred tax effect of US GAAP adjustments.....	(c) (720)	(22,347)	18,063
Net profit/(loss) in accordance with US GAAP.....	114,463	(125,400)	(257,893)

(a) Stock issuance costs. Under Spanish GAAP, costs associated with equity stock issuances are capitalized as non current assets and amortized over five years. US GAAP requires stock issuance costs to be presented on a net basis within equity against the proceeds from the stock issuance, without amortization.

(b) Foreign exchange deferred income. Spanish GAAP requires unrealized foreign exchange gain in excess of recorded foreign exchange losses to be deferred until they are realized. Under US GAAP they are accounted for as financial income when generated.

(c) Tax credits. Spanish GAAP permits the recognition of deferred tax credits, including those arising from net operating loss carryforwards, if it can be demonstrated that the deferred tax credits can be realized within a ten-year period from the date on which the assets were generated.

Under US GAAP, deferred tax credits and liabilities are recognized for all differences between the accounting and tax basis of assets and liabilities. Valuation allowances may be recorded against deferred tax credits if it is "more likely than not" that these assets will not be realized. Under US GAAP, a partial valuation allowance has been recorded against deferred tax credits that are fully recognized under Spanish GAAP. The calculation of the partial valuation allowance recognized under US GAAP is based upon the anticipated utilization of net operating loss carry-forwards in future years.

The reconciliation of shareholders' equity and net loss between Spanish and US GAAP also includes the deferred tax effect on US GAAP adjustments. The tax effects of temporary differences, carry-forwards and US GAAP differences that give rise to deferred tax liabilities and assets under US GAAP as of December 31, 2003 and as of December 31, 2002 are as follows:

<u>Current and non-current</u>	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Deferred tax liabilities—provision on investments	(72,429)	(72,498)
Deferred tax credits—net operating losses carry-forward	317,454	387,790
Tax effects of US GAAP adjustments	(12,510)	(10,711)
Deferred taxes.....	232,515	304,581
Tax receivable from related parties.....	12,772	—
	245,287	304,581
Valuation allowance.....	(147,172)	(144,259)
Deferred taxes, net.....	98,115	160,322

A reconciliation of the computed tax at the Spanish statutory tax rate and the income tax recognized in accordance with Spanish GAAP for the years ended December 31, 2003, 2002 and 2001 is as follows:

	<u>Euro thousand</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Computed tax at the Spanish statutory rate of 35%	52,503	(129,564)	(110,504)
Non deductible expenses	6,025	54,807	18,938
Differences due to consolidation adjustments	(1,032)	(31,023)	(5,517)
Registered corporate income tax current year.....	57,496	(105,780)	(97,083)
Registered corporate income tax from prior years	(4,507)	(68,943)	—
Total registered corporate income tax	52,989	(174,723)	(97,083)

(d) Research and development costs. Under Spanish GAAP, research and development costs are capitalized as intangible assets if the Group considers that there is no reasonable doubt about their future success and profitability and they are amortized over a period not exceeding five years. Under US GAAP, these costs are expensed as incurred.

(e) Capitalization of interest. Under US GAAP, interest costs that are directly related to the construction or production of assets for the company's own use must be capitalized and amortized over the expected life of the assets. Under Spanish GAAP, capitalization of interest cost is optional. The Group has chosen not to capitalize any interest cost under Spanish GAAP.

(f) Depreciation of tangible assets. Under Spanish GAAP, during the prematurity period, property and equipment are depreciated on a straight-line basis, although weighted depending on each operating company's stage of development. Under US GAAP these assets are depreciated on a straight-line basis over the useful lives.

(g) Stock-based compensation. Under Spanish GAAP, compensation expense for the Phantom Stock Option Plan is recorded for all options from the grant date to the exercise date, without regard for vesting provisions. Under US GAAP, compensation expense is recorded based

upon the accumulated amount of options vested.

The weighted average remaining contractual life of the options outstanding as of December 31, 2003 is 8 months.

(h) Goodwill related to the Corporate Reorganization

In November 2000, the Company carried out a corporate reorganization which involved the issuance of Cableuropa ordinary shares to acquire additional shareholdings in its Spanish subsidiaries and the redemption of the participative loans.

Under Spanish GAAP, the corporate reorganization transactions gave rise to goodwill of euro 387.4 million. Under US GAAP, the corporate reorganization transactions gave rise to goodwill of euro 601.4 million and an extraordinary loss of euro 3.8 million, as explained below.

i. Value of Ordinary Shares Issued

Under Spanish GAAP the corporate reorganization was accounted for based on a value for the Group's ordinary shares as fixed by the Board of Directors. Under US GAAP, it was accounted for at fair value of the ordinary shares issued.

Management of the Group considered the fair value of the corporate reorganization to be equivalent to the market value of the shares, as estimated by the Board of Directors. The market value was estimated by applying a generally accepted valuation method.

ii. Redemption of Participative Loans

In 2000, the Group redeemed all outstanding participative loans in connection with the corporate reorganization. Under Spanish GAAP, the redemption of these loans in exchange for ordinary shares did not give rise to a gain or loss. Instead, as the redemption of the loans was in connection with the acquisitions of the minority interests in the Group's subsidiaries, the difference between the value of the ordinary shares issued to redeem the loans and their carrying amount was recorded as goodwill.

Under US GAAP, the redemption of debt did not give rise to goodwill but, instead, triggered an extraordinary loss since the value of the consideration used to redeem the debt was in excess of the carrying value of that debt on the date of redemption.

iii. Summary

The following table summarizes the allocation of purchase price to acquired net assets under US GAAP.

	<u>Euro thousand</u>			
	<u>Shareholdings acquisition</u>	<u>Participative loans acquisition</u>	<u>Cash contributions</u>	<u>Total consideration</u>
Fair value of consideration issued.....	560,728	15,025	730	576,483
Less: Fair value of minority interests acquired	(39,930)	11,198	—	(28,732)
Less: extraordinary loss	—	3,827		3,827
Goodwill.....	600,658	—	730	601,388

(i) Amortization on goodwill

Under Spanish GAAP, the Group records amortization on goodwill. Under US GAAP, the provision of SFAS 142 (1) prohibits the amortization of goodwill and indefinite-lived intangible assets, (2) requires that goodwill and indefinite-lived intangible assets be tested annually for impairment and (3) requires that reporting units be identified for purposes of assessing potential future impairments of goodwill.

In connection with the adoption of SFAS 142 on January 1, 2002 the Company ceased goodwill amortization as of the beginning of the year 2002.

SFAS 142 requires that goodwill be tested annually for impairment. Goodwill impairment is tested using a two step process, whereby the

first step identifies a potential impairment and the second step measures the amount of the impairment loss, if any.

The Company has determined that it has one reporting unit in Spain under the guidance of SFAS 142. In order to identify a potential goodwill impairment loss, the fair value of the reporting unit was compared with its respective carrying amount, including goodwill as of June 30, 2003 and 2002. Since its fair value was greater than its carrying amount, goodwill was not considered impaired.

In relation with the Portuguese cable operator subsidiary, which also can be considered as a reporting unit under the guidance of FAS 142, in 2002 the Group took the decision to cease its operations, accordingly, its allocated goodwill amounted to euro 0.8 million on December 31, 2002 was considered impaired. Under Spanish GAAP the Group also recognized a provision in this regard.

The Group tests the Spanish reporting unit's goodwill for impairment annually, or before if there is any triggering event that may indicate that the fair value of the reporting unit has fallen below its carrying amount, as required by SFAS 142. As result of the test carried out during this year the Goodwill continues not to be considered impaired.

(j) Derivative financial instruments

Under Spanish GAAP, hedging cross-currency swaps are accounted for off balance sheet. However, for hedging transactions, potential losses are recorded if anticipated. Prior to January 1, 2001 the same accounting treatment was applied under US GAAP.

On January 1, 2001 the Group adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended by SFAS 137, SFAS 138 and further interpreted by the Derivatives Implementation Group (DIG). On this date, the Group recorded a net cumulative-effect transition adjustment of euro 5.0 million in other comprehensive income in accordance with the transition provisions of SFAS 133 under US GAAP. This adjustment to other comprehensive income is being amortized into the statement of profit and loss account over the life of the underlying debt. Subsequent to January 1, 2001, the Group has elected not to designate these derivative financial instruments in a qualifying hedging relationship and thus under US GAAP recorded them at their fair value with changes in fair value recognized in the statement of profit and loss as they occur during the year.

(k) Provision for discontinued operations in Portugal

In view of the decision of the Group to focus its activities on its core business in Spain the Portuguese operations were ceased and the process for the sale of the shareholdings of Univertel, the Portuguese subsidiary, was initiated in 2002 and due to certain circumstances has extended beyond one year though the Group expects to complete this process in 2004. As a result, under Spanish GAAP, the Group provided for a provision to cover losses and contingencies.

Under US GAAP, Univertel's net assets have been classified as held for sale and written down to their fair value less the estimated cost related to the sale. This resulted in a non cash loss of euro nil and euro 10.1 million for the year ended December 31, 2003 and December 31, 2002 respectively. Revenues and pre-tax losses of Univertel for the year ended December 31, 2003 amounted euro nil and euro 2,0 million, respectively (euro 0.5 million and euro 4.8 million, respectively, for the year ended December 31, 2002).

The carrying amount of Univertel's net assets is as follows:

	Euro thousand	
	Book value as of December 31, 2003	Book value as of December 31, 2002
Current assets	1,637	1,162
Total assets	1,637	1,162
Current liabilities	679	3,911
Other liabilities (of which euro 15.4 million and 10.0 million correspond to intercompany balances as of December 31, 2003 and December 31, 2002, respectively)	17,090	13,222
Total liabilities	17,769	17,133
Total net assets	(16,132)	(15,971)

CABLEUROPA, S.A.U. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (In Euro thousand, except otherwise indicated)

29. Differences between Spanish and US GAAP and other required disclosures

(l) Accrued expenses. Under Spanish GAAP, losses must be accrued for foreseeable contingencies and losses when known. Under US GAAP losses are accrued when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Foreseeable losses recorded under Spanish GAAP that management does not consider to be probable are not recorded under US GAAP.

(m) Minority interests

Minority interests reflects the portion of the US GAAP adjustments that are allocated to minority interests.

(n) Start-up costs. Under Spanish GAAP costs of start-up activities can be capitalized and amortized over a period of up to five years. Under US GAAP, start-up costs are expensed as incurred. As a consequence of the changes occurring in the telecommunications sector, as well as changes in the circumstances of the Group particularly at the end of year 2002 and, considering the Group's intention to converge over time

with International Financial Reporting Standards, under Spanish GAAP, the Group discontinued the capitalization and depreciation of start-up costs during the year 2002, writing these off completely. The effect of the change of this accounting criteria in the Group produced an extraordinary charge of euro 139.9 million in 2002.

II. Additional disclosures

The following disclosures are included to comply with the United States Securities and Exchange Commission's regulations for foreign registrants. As indicated, certain disclosures are presented on a Spanish GAAP measurement basis.

(a) Use of estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reporting amounts of certain assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from such estimates.

(b) Disclosures of fair value of the financial instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short term debts approximate fair value due to the short maturity of these instruments. The carrying value of the non-current portion of restricted cash equals to fair value since it bears an explicit and variable interest rate. Equity Value Certificates are carried in the balance sheet at their fair value. Fair value of the Company's equity shares at December 31, 2003 has been estimated using generally accepted valuation methods. The total market value of the debt related to the outstanding Notes issues, as of December 31, 2003 and 2002, was approximately euro 426 million and euro 302 million, respectively.

The company's long term debt contains certain non-financial covenants. In addition, the Senior Bank Facility contains certain financial covenants. As at December 31, 2003, the company is in compliance with all of these covenants.

(c) Comprehensive income

US GAAP requires entities to separately disclose all components of comprehensive income in the financial statements in the period in which they are recognized.

Comprehensive income under US GAAP is as follows:

	<u>2003</u>	<u>Euro thousand</u> <u>2002</u>	<u>2001</u>
Net profit/(loss) under US GAAP	114,463	(125,400)	(257,893)
Other comprehensive income:			
Transition adjustment for derivative financial instruments, net of tax credit of euro nil thousand (December 2003) and of euro 907 thousand (December 2002)	1,684	1,684	3,370
Net comprehensive profit/(loss) under US GAAP	116,147	(123,716)	(254,523)

(d) Classification differences

Net extraordinary expenses. Under Spanish GAAP, the Group has classified certain income and expenses as extraordinary items. Under US GAAP, these items would be classified as a component of other operating and non-operating income (expense), as appropriate

Cash and cash equivalents. Under Spanish GAAP, cash and cash equivalents equals cash and banks accounts. Under US GAAP, the Group considers all highly liquid investments with a maturity of three months or less at acquisition, to be cash and cash equivalents. Cash and cash equivalents under US GAAP amounted to euro 1.3 and 1.6 million, at December 31, 2003 and 2002, respectively.

Prepayments for tangible assets. Under Spanish GAAP, prepayments on account for the purchase or construction of tangible assets are classified as non-current assets. Under US GAAP, prepaid expenses are classified as current assets until the underlying funds are utilized.

Goodwill. Under Spanish GAAP, goodwill resulting from the vertical merger is presented under intangible assets. Under US GAAP it should be presented under the caption Goodwill on consolidation of the balance sheet.

(e) Intangible assets

Following is disclosed additional required information according to SFAS 142 which has been prepared on Spanish GAAP basis:

Intangible assets' carrying amounts and accumulated amortization of definite lived intangible assets, in total and by major class as of December 31, 2003

	Gross carrying amount	<u>Euro thousand</u> Accumulated amortization	Impairment of assets
Definite lived intangible assets.....			
Franchise acquisition costs	12,128	(6,568)	—
Computer software.....	35,622	(26,713)	(1,737)
Finance leases.....	1,662	(1,480)	—
Other intangible assets	880	(701)	—
Total definite lived intangible assets	50,292	(35,462)	(1,737)
Indefinite lived intangible assets			
Goodwill (Note 7).....	128,508	(20,158)	—
Total indefinite lived intangible assets	128,508	(20,158)	—
Total intangible assets.....	178,800	(55,620)	(1,737)

Amortization expense related to intangible assets and goodwill for the years 2003 and 2002

	<u>Euro thousand</u>	
	<u>2003</u>	<u>2002</u>
Amortization of Goodwill (intangible assets).....	6,445	6,436
Amortization of intangible assets (excluded goodwill)	8,305	15,342
Amortization of Goodwill on consolidation.....	13,390	13,434
Total amortization of intangible assets and goodwill.....	28,140	35,212

Estimated aggregate intangible asset and goodwill amortization expense for each of the five succeeding fiscal years

	<u>Euro thousand</u>	
	<u>Intangible assets</u>	<u>Goodwill⁽¹⁾</u>
Estimated amortization expense		
For the year ended December 31, 2004.....	4,538	19,835
For the year ended December 31, 2005.....	2,067	19,835
For the year ended December 31, 2006.....	1,186	19,835
For the year ended December 31, 2007.....	735	19,835
For the year ended December 31, 2008.....	281	19,835

(1) Includes both goodwill on consolidation and on intangible asset.

The changes in the carrying amount of goodwill during the years 2003 and 2002 are as follows:

	<u>Euro thousand</u>	
	<u>Goodwill on consolidation</u>	<u>Goodwill in intangible asset</u>
Balance as of January 1, 2002	256,163	118,962
Transfers.....	(2,042)	2,042
Goodwill acquired during the year.....	—	227
Amortization	(13,434)	(6,436)
Impairment losses	(754)	—
Balance as of January 1, 2003	239,933	114,795
Amortization	(13,390)	(6,445)
Balance as of December 31, 2003.....	226,543	108,350

(f) New accounting pronouncements

FIN 46

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46") "Consolidation of Variables Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements.'" This was revised in December 2003 and reissued as FIN 46-R. FIN 46 addresses the consolidation of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIE") by clarifying the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 provides guidance on how to determine when and which business enterprise (the "primary beneficiary") should consolidate the VIE. FIN 46 requires certain VIEs to be consolidated by the primary beneficiary if that variable interest holder is exposed to the majority of the entity's expected losses or residual returns.

This standard is required to be immediately applied by all entities with a VIE created after January 31, 2003. A public entity with a variable interest in a VIE created after February 1, 2003 is required to apply FIN 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after December 15, 2003. The Group does not anticipate that the adoption of FIN 46 will have a material impact on the consolidated financial statements.

FAS 150

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that certain obligations that could be settled by issuance of an entity's equity but lack other characteristics of equity be reported as liabilities. Some provisions of this Statement are consistent with the FASB's proposal to revise the definition of liabilities in FASB Concepts Statement No. 6, "Elements of Financial Statements." This Statement was effective beginning July 1, 2003. On November 7, 2003, FASB Staff Position (FSP) FAS 150-3 was issued deferring the effective date for the measurement provisions of paragraphs 9 and 10 of FAS 150, as they apply to mandatorily redeemable non-controlling interests (e.g., minority interests in finite-lived entities). The FSP indicated, however, that the disclosure requirements of FAS 150 continue to apply. The Group does not anticipate that the adoption of FAS 150 will have a material impact on the consolidated financial statements.

29. Differences between Spanish and US GAAP and other required disclosures

(g) Statements of Cash Flows

The statements of cash flows for the years 2003, 2002 and 2001, presented on a Spanish GAAP measurement basis, are as follows:

	Euro thousand		
	Year ended December 31,		
	2003	2002	2001
Operating activities:			
Net profit/(loss).....	97,019	(194,642)	(216,920)
Adjustments to reconcile net loss to net cash provided (used):			
Gain on bonds repurchase	(313,619)	—	—
Non-cash expense/income from phantom stock option plan.....	—	(16,660)	—
Equity Value Certificates appreciation/depreciation.....	—	(51,492)	—
Exchange rate difference in long term debt.....	(18,133)	(9,966)	(5,800)
Amortization of deferred expenses.....	10,025	14,156	8,223
Amortization of goodwill.....	13,390	19,870	13,753
Depreciation and amortization.....	102,485	91,867	80,773
Income tax/(Tax credit).....	52,989	(174,723)	(97,083)
Commitments and contingencies	(8,667)	(1,371)	6,756
Losses attributable to minorities	—	(818)	(1,723)
Start-up costs	(826)	(14,401)	(38,402)
Deferred expenses.....	(3,352)	(5,242)	—
Write off start up cost.....	—	139,859	—
Amortization of soccer rights.....	4,247	5,736	4,508
Provision for discontinuing operations in Portugal	—	10,922	—
Impairment of Goodwill	—	754	—
Tangible assets provision and write-offs	14,376	43,605	2,000
Intangible assets provisions and write-offs.....	6,163	—	—
Loss/(gain) on sale of assets	1,545	—	—
Other	885	(228)	(969)
Changes in operating assets and liabilities:			
Accounts receivable	64,187	4,937	(23,534)
Other current assets.....	1,188	3,252	(2,746)
Short term investments.....	24,340	(9,604)	90,874
Accounts payable	(25,098)	(36,837)	(94,397)
Accrued interest and other current liabilities	26,522	4,276	22,195
Net cash provided/(used) by operating activities.....	49,666	(176,750)	(252,492)
Investing activities:			
Purchase of property and equipment	(198,598)	(251,704)	(359,664)
Goodwill.....	—	(228)	—
Purchases of intangible assets.....	(5,756)	(5,454)	(12,680)
Financial assets.....	(2)	775	(696)
Proceeds from sale of assets or investments.....	9,314	—	969
Net cash used by investing activities.....	(195,042)	(256,611)	(372,071)
Financing activities:			
Issuance of common stock	—	—	149,998
Common stock decreases.....	—	—	(7,118)
Proceeds from participative loans	—	300,000	—
Proceeds from shareholder's loan.....	98,464	—	—
Proceeds from Multi-Borrower Credit Facilities	—	—	315,335
Proceeds from Equity Value Certificates.....	—	—	50,599
Proceeds from long term debt	245,000	154,000	92,170

Proceeds from/(repayment of) short term debt	(25,888)	(33,737)	19,823
Swap agreements	(47,810)	—	—
Acquisition of notes	(143,815)	—	—
Other long term liabilities	19,134	4,203	—
Net cash provided by financing activities	145,085	424,466	620,807
(Decrease) increase in cash and cash equivalents	(291)	(8,895)	(3,756)
Cash and cash equivalents at beginning of period	1,608	10,503	14,259
Cash and cash equivalents at end of period	1,317	1,608	10,503
Cash paid for interest	111,168	140,643	118,918

No cash amounts were paid for income tax in 2003, 2002 and 2001.

(h) Leases

The group leases certain tangible assets, including machinery and equipment, under long term arrangements. Under Spanish GAAP, finance leases are classified as intangible assets. Under US GAAP, finance leases are classified based upon the underlying asset type.

As of December 31, 2003, the estimated future minimum lease payments under noncancelable lease agreements in excess of one year are as follows:

	Euro thousand	
	As of December 31, 2003	
	Operating Leases	Finance Leases
2004	15,688	181
2005	12,823	—
2006	11,460	—
2007	8,280	—
2008	5,392	—
Thereafter	65,033	—
Total minimum lease payments	118,676	181
Present value of net minimum lease payment.....	94,287	181
Less current maturities	(15,231)	—
Long term obligations.....	79,056	181

Rental expense under operating leases in accordance with Spanish GAAP amounted to euro 23.2 million, euro 26.6 million and euro 19.6 million during the years ended December 31, 2003, 2002 and 2001, respectively.

(i) Valuation and qualifying accounts and reserves for the years ended December 31, 2003, 2002 and 2001:

	Euro thousand				Balance at end of period
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions(a)	
Year ended December 31, 2003					
Reserves deducted in the balance sheet from the assets to which they apply:					
Allowance for doubtful accounts.....	23,543	13,803	—	(6,895)	30,451
Provision for short term investments.....	2,202	4,349	—	—	6,551
Year ended December 31, 2002					
Reserves deducted in the balance sheet from the assets to which they apply:					
Allowance for doubtful accounts.....	10,652	13,338	—	(447)	23,543
Provision for short term investments.....	2,461	—	—	(259)	2,202
Year ended December 31, 2003					
Reserves deducted in the balance sheet from the assets to which they apply:					
Allowance for doubtful accounts.....	5,619	8,154	—	(3,121)	10,652
Provision for short term investments.....	2,461	—	—	—	2,461

(a) Deductions for the allowance for doubtful accounts include amounts written off as uncollectible.

**ANNUAL REPORT AND ACCOUNTS
FOR THE
YEAR ENDED 31 DECEMBER 2003**

Registered number: 3619149

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**ONO FINANCE PLC
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003**

The directors present their report on the affairs of ONO Finance PLC ("the Company"), together with the accounts and auditors' report for the year ended 31 December 2003.

Principal activity

The principal activity of the company is that of a finance company. ONO Finance PLC's business is the issuance of debt and the provision of debt finance to Cableuropa S.A.U. and its subsidiary companies ("the Cableuropa Group"). The Cableuropa Group is one of the leading broadband telecommunications business in Spain.

Review of the business

At the start of the year the Company's principal liability was under various loan notes (the "Notes") and its principal asset was various loans (the "Loans") made to the Cableuropa Group.

During the course of the year the Cableuropa Group purchased Notes issued by the Company. On 13 February 2003 the Cableuropa Group transferred these Notes to the Company, who redeemed them, in exchange for a reduction in amounts owed to the Company under the Loans.

At the end of the year, therefore, the principal outstanding under the Notes was lower than that at the start of the year and the principal owing to the Company under the Loans was proportionately reduced.

Results and dividend

The results for the period are shown on page F-62 and arise from continuing operations. The directors recommend no dividend for 2003 (2002 and 2001: £1.50 per share).

Directors

The directors, who held office during the period, had no interest in the shares of the company at any time.

The directors who served during the period were as follows

Mr. B D Needham
Mr. P M Hills

Directors responsibilities

The directors are required by Company Law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the financial year.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to comply with the Companies Act 1985. They also have general responsibility for taking reasonable steps to safeguard the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors confirm that, in preparing the accounts, suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used and that applicable accounting and financial reporting standards have been followed.

Information published on the internet is available in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payments. The trade creditors, expressed as a number of days, was zero as all trading expenses were paid by ONO Finance (Holdings) Limited ("the holding company") which abides by these terms.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

This report was approved and signed on behalf of the Board on 27 April 2004.

B D Needham
Director

Clifford Chance Secretaries
10 Upper Bank Street
London
E14 5JJ

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of ONO Finance PLC.

We have audited the accompanying balance sheet of ONO Finance PLC as of December 31, 2003 and 2002, and the related profit and loss account and the statement of recognised gains and losses for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ONO Finance Plc at December 31, 2003 and 2002, and the results of its operations for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 13 to the financial statements.

PricewaterhouseCoopers LLP

27 April 2004

ONO FINANCE PLC
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>Notes</u>	Year ended 31 December <u>2003</u>	Year ended 31 December <u>2003</u> US\$ (Note 1)	Year ended 31 December <u>2002</u>	Year ended 31 December <u>2001</u>
		£		£	£
Interest receivable and similar income.....	2	35,432,928	63,219,430	88,695,480	86,248,879
Foreign exchange gains/(losses), net.....		1,300	2,320	9,941	(307)
Interest payable and similar charges	3	(35,410,071)	(63,178,650)	(88,629,172)	(86,189,430)
Profit on ordinary activities before taxation		24,157	43,100	76,249	59,142
Tax on profit on ordinary activities	4	(4,240)	(7,565)	(9,335)	(17,743)
Profit on ordinary activities after taxation.....		19,917	35,535	66,914	41,399
Dividend.....	5	—	—	(74,997)	(75,000)
Retained profit/(loss) for the period.....	10	19,917	35,535	(8,083)	(33,601)

The results for the period arise entirely from continuing operations.

The accompanying notes are an integral part of these accounts.

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2003

	Year ended 31 December <u>2003</u>	Year ended 31 December <u>2003</u> US\$ (Note 1)	Year ended 31 December <u>2002</u>	Year ended 31 December <u>2001</u>
	£		£	£
Profit for the financial period	19,917	35,535	66,914	41,399
Revaluation of equity value certificates due from Cableuropa Group due to exchange rate difference.....	1,383,148	2,467,813	(30,535,128)	39,586,078
Revaluation of equity value certificates due to bondholders due to exchange rate difference.....	(1,383,148)	(2,467,813)	30,535,128	(39,586,078)
	19,917	35,535	66,914	41,399

The accompanying notes are an integral part of these accounts.

ONO FINANCE PLC
BALANCE SHEET AS AT 31 DECEMBER 2003

<u>Notes</u>	31 December	31 December	31 December	31 December
--------------	-------------	-------------	-------------	-------------

		<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
		£	US\$ (Note 1)	£	£
Debtors: receivable after more than one year.....		282,912,545	504,772,563	572,209,595	565,865,404
Debtors: receivable within one year.....		32,170,463	57,398,540	59,931,601	108,582,822
Total debtors.....	6	315,083,008	562,171,103	632,141,196	674,448,226
Cash at bank and in hand.....		43,552	77,705	85,745	23,863
Current assets.....		315,126,560	562,248,808	632,226,941	674,472,089
Creditors: amounts falling due within one year.....	7	(15,419,513)	(27,511,496)	(28,978,215)	(29,310,829)
Total assets less current liabilities.....		299,707,047	534,737,312	603,248,726	645,161,260
Creditors: amounts falling due after more than one year.....	8	(299,666,237)	(534,664,500)	(603,227,833)	(645,132,284)
Net assets.....		40,810	72,812	20,893	28,976
Capital and Reserves					
Called up share capital.....	9	12,502	22,305	12,502	12,502
Profit and loss account.....	10	28,308	50,507	8,391	16,474
Equity shareholders' funds.....	10	40,810	72,812	20,893	28,976

The accounts on pages F-61 to F-74 were approved by the Board on 27 April 2004.

Director:

B D Needham

The accompanying notes are an integral part of these accounts.

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

Loans

Borrowings are included as liabilities in the balance sheet at their proceeds, net of discount and expenses. The expenses and discount are charged to loan interest in the profit and loss account over the term of the borrowing, using the effective interest method. Funds on lent to Cableuropa S.A.U. and its subsidiary companies (the Cableuropa Group) are accounted for in exactly the same manner in order to match the borrowing and the debtor treatment.

Finance costs

Finance costs on borrowings are recognised in the profit and loss account over the term of such instruments at a constant rate over the period of the instrument.

Foreign exchange

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Foreign currency monetary assets and liabilities in the balance sheet are translated into sterling at the rates of exchange ruling at the end of the year. The resulting gain or loss is included as an exchange gain or loss in the profit and loss account.

Taxation

Corporation tax is provided on taxable profits at the current rate. Full provision is made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 "Cash Flow Statements (revised 1996)" from producing a cash flow statement on the grounds that it is a subsidiary undertaking where more than 90 per cent of the voting rights are controlled within a group and consolidated accounts for that group are publicly available.

Convenience translation

The financial statements are stated in United Kingdom pounds. The conversions of United Kingdom pound amounts into United States Dollars are included solely for the convenience of readers, using the noon buying rate certified for customs purposes by the Federal Reserve Bank of New York as of 31 December 2003, which was US\$1.7842 to £1.

The convenience translations should not be construed as representations that the United Kingdom pound amounts have been, could have been, or could in the future be, converted into United States Dollars at this or any other rate of exchange.

Revaluation of listed investments

Equity value certificates are stated at the estimated market value of Cableuropa, S.A.U. shares, and profits and losses arising from this valuation are taken to the revaluation reserve. This is in accordance with the Alternative Accounting Rules noted in the Companies Act 1985.

2. Interest receivable and similar income

The interest receivable and similar income represents the interest receivable on the funds that have been on-lent to the Cableuropa Group

together with the amortisation of an upfront fee received from the Cableuropa Group and also the amortisation of a fee receivable for maintenance of the facilities. The amortisation of the aforementioned fees is being recorded using the effective interest method.

3. Interest payable and similar charges

The interest payable and similar charges represent the interest incurred on the debentures issued (see note 8), together with the amortisation of the both costs incurred and the discount on the issue of those debentures.

4. Taxation

The tax charge comprises:

	Year ended 31 December <u>2003</u> £	Year ended 31 December <u>2003</u> US\$	Year ended 31 December <u>2002</u> £	Year ended 31 December <u>2001</u> £
Current tax:				
UK corporation tax.....	4,831	8,619	15,250	17,743
Adjustment in respect to prior years	(591)	(1,054)	(5,915)	—
	4,240	7,565	9,335	17,743

No temporary timing differences have arisen on the transactions of the company which would lead to a deferred tax charge/(credit) in the profit and loss account.

The difference between the total current tax charge shown above and the amount calculated by applying the standard rate of UK Corporation tax to the profit before tax is as follows:

	Year ended 31 December <u>2003</u> £	Year ended 31 December <u>2003</u> US\$	Year ended 31 December <u>2002</u> £	Year ended 31 December <u>2001</u> £
Profit on ordinary activities before taxation	24,157	43,100	76,249	59,142
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2002: 20%; 2001: 30%).....	4,831	8,620	15,250	17,743
Effects of:				
Adjustment in respect to prior years	(591)	(1,055)	(5,915)	—
Current tax charge for the year	4,240	7,565	9,335	17,743

5. Dividends

	Year ended 31 December <u>2003</u> £	Year ended 31 December <u>2003</u> US\$	Year ended 31 December <u>2002</u> £	Year ended 31 December <u>2001</u> £
Proposed	—	—	75,000	75,000
Adjustment in respect of prior year.....	—	—	(3)	—
	—	—	74,997	75,000

The adjustment in respect of the prior year in 2002 relates to the waiver of the 2001 dividend by Cableuropa S.A.U.

6. Debtors

	31 December 2003	31 December 2003	31 December 2002	31 December 2001
	£	US\$	£	£
<i>Receivable after more than one year:</i>				
Loans to the Cableuropa Group	264,966,171	472,752,642	555,646,369	565,865,404
Amounts due from Cableuropa in respect of the equity value certificates	17,946,374	32,019,921	16,563,226	—
	282,912,545	504,772,563	572,209,595	565,865,404
<i>Receivable within one year:</i>				
Amounts due from Cableuropa in respect of the equity value certificates	—	—	—	47,098,354
Indebtedness with holding company	—	—	7,059	—
Indebtedness with the Cableuropa Group.....	32,170,463	57,398,540	59,924,542	61,484,468
	315,083,008	562,171,103	632,141,196	674,448,226

The loans to the Cableuropa Group reflect the on-lending of the gross loans that are included in creditors (see note 8) and are repayable on the same terms. These are denominated in the same currencies. The loans bear interest at 13.214%, 14.01% and 16.252% per annum.

7. Creditors: amounts falling due within one year

	31 December 2003	31 December 2003	31 December 2002	31 December 2001
	£	US\$	£	£
UK taxation	4,245	7,574	15,250	17,743
Proposed dividend.....	—	—	75,000	75,000
Indebtedness with holding company	8,188	14,609	—	—
Accruals and deferred income.....	15,407,080	27,489,313	28,887,965	29,218,086
	15,419,513	27,511,496	28,978,215	29,310,829

The accruals and deferred income represents the interest payable on the Notes and the short-term portion of the amortisation for the maintenance fee in respect to the 1999 and 2001 Notes.

8. Creditors: amounts falling due after more than one year

	31 December 2003	31 December 2003	31 December 2002	31 December 2001
	£	US\$	£	£
Notes:				
13% US\$ 275m Notes due 2009	50,076,645	89,346,750	165,390,534	182,435,188
13% Euro 125m Notes due 2009	31,335,259	55,908,370	78,838,661	73,809,873
14% Euro 200m Notes due 2010	78,576,834	140,196,787	127,172,669	119,285,146

14% US\$ 200m Notes due 2011	41,039,530	73,222,730	107,162,587	116,483,798
14% Euro 150m Notes due 2011	69,547,803	124,087,189	84,286,053	77,759,832
Equity value certificates relating to the Notes due 2009 and 2011.	17,946,374	32,019,921	16,563,226	47,098,354
Accruals and deferred income.....	11,143,792	19,882,753	23,814,103	28,260,093
	299,666,237	534,664,500	603,227,833	645,132,284

All Notes are repayable after more than 5 years.

The 13% Notes 2009 will mature on 1 May 2009. However, the company may redeem some or all of the Notes at any time on or after 1 May 2004.

The 14% Notes 2010 will mature on 15 July 2010. However, the company may redeem some or all of the Notes on or after 15 July 2005.

The 14% Notes 2011 will mature on 15 February 2011. However, the company may redeem some or all of the Notes at any time on or after 15 February 2006.

13% US\$275m Notes 275,000 units of \$1,000 principal amount of dollar Notes and one dollar Equity value certificate were issued on 6 May 1999 at a discounted price of US\$984.59/unit. Expenses of US\$8,937,500 were incurred. Both the expenses and discount have been netted from the gross amount of the loan and are being amortised over the period of the loan. 182,902 Notes were then redeemed on 13 February 2003. The unamortised amount related to the discount and expenses at the balance sheet date of the units was US\$ 2,360,652 (2002: US\$ 8,366,388, 2001: US\$ 9,684,506). The Equity value certificates entitle their holders to receive cash in an amount equal to the market value of a number of shares of Cableuropa S.A.U. This number of shares can be diluted in relation to the percentage of Cableuropa, S.A.U.'s total shares under certain circumstances.

13% Euro125m Notes 125,000 units of Euro1,000 principal amount of Euro Notes and one Euro Equity value certificate were issued on 6 May 1999 at a discounted price of Euro 984.59/unit. Expenses of Euro 4,062,500 were incurred. Both the expenses and the discount have been netted from the gross amount of the loan and are being amortised over the period of the loan. 79,372 Notes were then redeemed on 13 February 2003. The unamortised amount related to the discount and expenses at the balance sheet date of the units was Euro 1,169,535 (2002 Euro 3,802,904, 2001 Euro 4,402,049). The Equity value certificates entitle their holders to receive cash in an amount equal to the market value of a number of shares of Cableuropa S.A.U. This number of shares can be diluted in relation to the percentage of Cableuropa, S.A.U.'s total shares under certain circumstances.

14% Euro200m Notes 200,000 units of Euro 1,000 principal amount were issued on 30 June 2000 at a discounted price of Euro 970/unit. The expenses of this issue have been borne by Cableuropa S.A.U. The discount has been netted from the gross amount of the loan and is being amortised over the period of the loan. 86,298 Notes were then redeemed on 13 February 2003. The unamortised amount related to the expenses at the balance sheet date of the units was Euro 2,217,189 (2002 Euro 4,500,000, 2001 Euro 5,100,000).

14% US\$200m Notes 200,000 units of \$1,000 principal amount of dollar Notes and one dollar Equity value certificate were issued on 9 February 2001 at a discounted price of US\$862.04/unit. Expenses of US\$6,000,000 were incurred. Both the expenses and discount have been netted from the gross amount of the loan and are being amortised over the period of the loan. 116,486 Notes were then redeemed on 13 February 2003. The unamortised amount related to the expenses at the balance sheet date of the units was US\$ 9,971,161 (2002 US\$ 27,238,314, 2001 US\$ 30,597,613). The Equity value certificates entitle their holders to receive cash in an amount equal to the market value of a number of shares of Cableuropa S.A.U. This number of shares can be diluted in relation to the percentage of Cableuropa, S.A.U.'s total shares under certain circumstances.

14% Euro150m Notes 150,000 units of Euro1,000 principal amount of Euro Notes and one Euro Equity value certificate were issued on 9 February 2001 at a discounted price of Euro 862.04/unit. Expenses of Euro 4,500,000 were incurred. Both the expenses and the discount have been netted from the gross amount of the loan and are being amortised over the period of the loan. 37,947 Notes were then redeemed on 13 February 2003. The unamortised amount related to the discount and expenses at the balance sheet date of the units was Euro 13,378,577 (2002 Euro 20,428,736, 2001 Euro 22,948,210). The Equity value certificates entitle their holders to receive cash in an amount equal to the market value of a number of shares of Cableuropa S.A.U. This number of shares can be diluted in relation to the percentage of Cableuropa, S.A.U.'s total shares under certain circumstances.

All the Notes are fully and conditionally guaranteed, jointly and severally on a subordinated unsecured basis by companies in the Cableuropa Group.

The Equity value certificates relating to the 1999 and 2001 Notes, which were separated from the Notes when the Notes were exchanged for registered Notes, will be redeemable at the earliest of an initial public offering of Cableuropa S.A.U. or a reorganisation of the Cableuropa Group or 31 May 2009 (related to 1999 Notes) or 16 March 2011 (related to 2001 Notes).

9. Called up share capital

The authorised and issued share capital of the Company is £50,000 divided into 50,000 ordinary shares of £1 each, of which two fully paid shares and 49,998 shares paid up to one quarter have been issued.

The issued share capital is paid up as follows:—

	31 December 2003	31 December 2003	31 December 2002	31 December 2001
	£	US\$	£	£
2 fully paid shares of £1 each, issued at par on incorporation.	2	3	2	2
49,998 paid up to one-quarter shares of £1 each, issued at par on 4 February 1999.	12,500	22,302	12,500	12,500
	12,502	22,305	12,502	12,502

10. Reconciliation of movements in equity shareholders' funds

	Share capital 2003	Profit and loss account 2003	Total 2003	Total 2002	Total 2001
	£	£	£	£	£
Opening equity shareholders' funds	12,502	8,391	20,893	28,976	62,577
Retained profit/(loss) for the financial period	—	19,917	19,917	(8,083)	(33,601)
Closing equity shareholders' funds.....	12,502	28,308	40,810	20,893	28,976

11. Ultimate parent undertaking and controlling party

ONO Finance (Holdings) Limited is the immediate parent undertaking of the company. The shares of ONO Finance (Holdings) Limited are in turn held by Royal Exchange Trust Company Limited under the terms of a Declaration of Trust for charitable purposes. Copies of those group accounts may be obtained from the Registrar of Companies.

Cableuropa S.A.U., a company incorporated in Spain, is the largest group of which the company is a member and for which group accounts are drawn up.

12. Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard No 8 from disclosing transactions with its holding company on the grounds that it is more than 90% owned.

The company is owned 98% by ONO Finance (Holdings) Limited and 2% owned by Cableuropa S.A.U. ONO Finance (Holdings) Limited has borne all administrative expenses of the company, including legal, accounting and rental costs. Accordingly, no administrative expenses have been recorded in the accompanying financial accounts. In addition, the directors receive no emoluments in respect of their services to the company.

13. US GAAP

ONO Finance Plc's financial statements are prepared in accordance with UK GAAP, which differ in certain respects from the accounting principles generally accepted in the United States (US GAAP). The principal differences between UK GAAP and US GAAP are presented and described below, together with explanations of the adjustments that affect net income and total shareholders' equity as of 31 December 2003 and for the periods indicated.

Reconciliation of shareholders' equity and net (loss)/profit

	Year ended 31 December 2003 £	Year ended 31 December 2003 US\$	Year ended 31 December 2002 £	Year ended 31 December 2001 £
<u>Reconciliation of shareholders' equity</u>				
Shareholders' equity in accordance with UK GAAP	40,810	72,812	20,893	28,976
Proposed dividend and waiver of prior year dividend.....	—	—	74,997	75,000
Shareholders equity in accordance with US GAAP	40,810	72,812	95,890	103,976

	Year ended 31 December 2003 £	Year ended 31 December 2003 US\$	Year ended 31 December 2002 £	Year ended 31 December 2001 £
<u>Reconciliation of net (loss)/profit</u>				
Retained profit/(loss) for the period in accordance with UK GAAP	19,917	35,535	(8,083)	(33,601)
Proposed dividend and waiver of prior year dividend.....	—	—	74,997	75,000
Net profit in accordance with US GAAP	19,917	35,535	66,914	41,399

Proposed dividends

Under UK GAAP proposed dividends are presented as a deduction at the foot of the profit and loss account, whereas under US GAAP, dividends are shown when declared, as a deduction in the statement of changes in stockholders' equity.

Use of Estimates in the Preparation of the Financial Statements

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates

Cash and cash equivalents

Cash and cash equivalents consist of all cash in banks, cash in hand, and other equivalent instruments with original maturities of three months or less.

Debt issuance costs

Under UK GAAP, debt issuance costs of £6,652,367 (£15,072,855 before the partial debt cancellation in 2003) are netted against the carrying value of the related debt. Under US GAAP, these costs are reclassified as a long-term asset and amortised over the period of the debt. This difference in classification gives rise to no differences in reported shareholders equity and net income.

The company has considered the impact of new accounting standards in the UK and the US and does not expect them to have a material impact on the company's financial statements.

Revaluation of Equity Value Certificates

Under UK GAAP, changes in the value of the Equity value certificates are recorded in the statement of recognised gains and losses. Under US GAAP, such amounts are recorded under other comprehensive income. However, as the decrease in the value of the Equity value certificates related to the Company's debt obligations is equivalent to the decrease in the value of the related receivable from Cableuropa S.A.U., there are no differences between net income, comprehensive income or shareholders' equity between US and UK GAAP.

Income taxes

Provision for taxation has been made at the rate of 20%.

There are no temporary differences giving rise to deferred taxes in accordance with US generally accepted accounting principles.

Financial instruments

<u>31 December 2003</u>	<u>Notional amount</u> £	<u>Carrying amount</u> £	<u>Fair value</u> £
13% US\$ Notes 2009.....	51,393,973	50,076,645	53,449,732
13% Euro Notes 2009	32,159,571	31,335,259	32,963,561
14% Euro Notes 2010	80,139,555	78,576,834	82,944,439
14% US\$ Notes 2011	46,603,795	41,039,530	48,992,239
14% Euro Notes 2011	78,977,305	69,547,803	81,741,510
	289,274,199	270,576,071	300,091,481

<u>31 December 2003</u>	<u>Notional amount</u> US\$	<u>Carrying amount</u> US\$	<u>Fair value</u> US\$
13% US\$ Notes 2009.....	92,098,000	89,346,750	95,365,012
13% Euro Notes 2009	57,629,952	55,908,370	58,813,585
14% Euro Notes 2010	143,610,082	140,196,787	147,989,468
14% US\$ Notes 2011	83,514,000	73,222,730	87,411,953
14% Euro Notes 2011	141,527,330	124,087,189	145,843,203
	518,379,364	482,761,826	535,423,221

31 December 2002	Notional amount	Carrying amount	Fair value
	£	£	£
13% US\$ Notes 2009.....	170,580,133	165,390,534	55,438,543
13% Euro Notes 2009	81,312,448	78,838,661	26,426,546
14% Euro Notes 2010	130,099,917	127,172,669	42,282,473
14% US\$ Notes 2011	124,058,279	107,162,587	40,318,940
14% Euro Notes 2011	97,574,938	84,286,053	31,711,855
	603,625,715	562,850,504	196,178,357

31 December 2001	Notional amount	Carrying amount	Fair value
	£	£	£
13% US\$ Notes 2009.....	189,094,410	182,435,188	145,602,695
13% Euro Notes 2009	76,504,070	73,809,873	58,908,134
14% Euro Notes 2010	122,406,512	119,285,146	96,701,145
14% US\$ Notes 2011	137,523,207	116,483,798	108,643,334
14% Euro Notes 2011	91,804,884	77,759,832	72,525,858
	617,333,083	569,773,837	482,381,166

The company could be exposed to credit related losses due to the debt financing in place. The fair value is based on the quoted market value of the Notes at 31 December 2003, 2002 and 2001.

Cash flow statement

	Year ended 31 December 2003	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2001
	£	US\$	£	£
Cash flows from operating activities:				
Net income.....	19,917	35,535	66,914	41,399
Adjustments to reconcile net income to net cash				
Operating activities				
Taxation.....	4,240	7,565	9,335	17,743
Foreign exchange transaction (gain)/loss	—	—	(13,000)	57
Amortisation of debt issuance costs and debt discount	3,061,720	5,462,721	5,320,321	5,074,892
Accretion of discount on Notes receivable	(3,061,720)	(5,462,721)	(5,320,321)	(5,074,892)
Non cash interest payable.....	—	—	17,607,776	52,136,533
Non cash interest receivable	—	—	(17,607,776)	(52,175,922)
Interest received from prior years	—	—	79,664	—
(Increase)/decrease in debtors.....	8,650	15,435	(6,034)	—
(Decrease) in creditors	—	—	—	(8,422)
Total adjustments from operating activities	12,890	23,000	69,965	(30,011)
Financing activities				
Dividend paid	(75,000)	(133,815)	(74,997)	—
Net cash flows.....	(42,193)	(75,280)	61,882	11,388
Cash and cash equivalents, at beginning of period	85,745	152,985	23,863	12,475
Cash and cash equivalent, at end of period	43,552	77,705	85,745	23,863

Amounts stated are on a UK GAAP basis.

Non-cash investing and financing activities disclosure:

The cash proceeds from the debt issuance were received directly by the Cableuropa Group. Accordingly, the cash flow statement does not reflect receipt of these proceeds and a subsequent disbursement to the Cableuropa Group.

Accounting for derivative instruments and hedging activities

The company has considered the impact of new accounting standards in the UK and the US and does not expect them have a material impact on the company's financial statements.

14. Significant event

During the course of the year the Cableuropa Group purchased Notes issued by the Company. On 13 February 2003 the Cableuropa Group transferred these Notes to the Company, who redeemed them (see note 8), in exchange for a reduction in amounts owed to the Company under the Loans.

At the end of the year, therefore, the principal outstanding under the Notes was lower than that at the start of the year and the principal owing to the Company under the Loans was proportionately reduced.

The loans to the Cableuropa Group as well as the outstanding Notes after the redemption on 13 February 2003, are as follows:

	Thousand of Euro or US\$ (as applicable)			
	Outstanding Bonds		Outstanding Loans to the Cableuropa Group	
	Face	Interest Rate	Total loan @ maturity	Interest Rate
Euro Notes due 2009.....	45,628	13.00	45,628	13.214
US\$ Notes due 2009	92,098	13.00	92,098	13.214
Euro Notes due 2010.....	113,702	14.00	113,702	14.010
Euro Notes due 2011.....	112,053	14.00	112,053	16.252
US\$ Notes due 2011	83,514	14.00	83,514	16.252

The Equity value certificates on these Notes have been classified as being due in more than 1 year.

15. Derivatives and other financial instruments

The Company's financial instruments comprise borrowings, debtors and creditors that arise as a result of normal operations. The Company does trade in financial instruments.

The main risk arising from the Company's financial instruments is foreign currency risk. However, as the onward lendings to Cableuropa Group are in the same currencies as the borrowings, any foreign currency exposure should be minimal. Details can be found in notes 6 and 8.

Maturity of financial instruments

The maturity profiles of the company's financial instruments are detailed in notes 6 and 8.

Fair values

The fair value of the financial liabilities at 31 December 2003 is detailed in note 13.

Interest rate risk

The company is not exposed to interest rate risk as all interest rates on financial instruments are fixed as detailed in notes 6 and 8 and finance raised by the issue of the financial instruments are subsequently on lent at similar fixed rates of interest.

16. Subsequent events

ONO Finance announced a tender offer (the "Tender Offer") on April 16, 2004. Under the terms of the Tender Offer, ONO Finance will purchase up to an aggregate maximum principal amount of €300,000,000 of Notes at an initial purchase price per \$1,000 or €1,000 principal amount, as the case may be, of: (i) 1,068.75 for the 2009 Notes, (ii) 1,130.00 for the 2010 Notes, and (iii) 1,160.00 for the 2011 Notes. The purchase price includes a premium per \$1,000 or €1,000 principal amount of tendered Notes, as the case may be, of 30.00 for the 2009 Notes and 50.00 for the 2010 Notes and 2011 Notes. The premium will be paid to holders of Notes who have validly tendered and not withdrawn their Notes on or prior to April 29, 2004.

In conjunction with the Tender Offer, ONO Finance is also seeking the consent of holders of the Notes (the "Consent Solicitation") to certain amendments to the indentures governing the Notes (the "Indentures"). These amendments, if and when effective, will eliminate substantially all of the restrictive covenants, certain events of default and certain additional covenants and rights of the holders contained in the Indentures and the Notes. Any Note tendered in the Tender Offer is deemed to constitute the consent of the holder to the proposed amendments to the relevant Indenture. The Indentures provide that the consent of at least a majority of the principal amount outstanding is necessary to approve the proposed amendments.

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**LUXEMBOURG
PAYING AND TRANSFER AGENT**

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Aerogolf Center
1A Hoehenhof
L-1736 Senningerberg
Luxembourg

€280,000,000

ONO Finance Plc

€180,000,000 10.5% Senior Notes due 2014

€100,000,000 Floating Rate Senior Notes due 2014

Guaranteed on a Senior Subordinated Basis by
Cableuropa, S.A.U. and certain of its subsidiaries

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OFFERING MEMORANDUM

May 7, 2004

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Joint Book-Running Managers

Banc of America Securities Limited BNP PARIBAS Deutsche Bank Morgan Stanley

Co-Managers

Barclays Capital Calyon Corporate and Investment Bank Fortis Bank
The Royal Bank of Scotland UBS Investment Bank

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