

**UPC HOLDING B.V.**  
**Condensed Consolidated Financial Statements**  
**September 30, 2009**

Revised to include subsequent events footnote.

**UPC Holding B.V.**  
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UPC HOLDING B.V.

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**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

	September 30, 2009	December 31, 2008
	in millions	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	€ 79.4	€ 108.6
Trade receivables, net.....	256.1	427.1
Receivables – related party (note 10).....	5.0	4.1
Deferred income taxes.....	40.4	44.7
Derivative instruments (note 5).....	51.9	134.1
Other current assets.....	<u>78.0</u>	<u>82.5</u>
Total current assets.....	510.8	801.1
Restricted cash (note 8).....	311.4	330.2
Investments (note 4).....	32.9	31.1
Property and equipment, net (note 7).....	3,840.8	3,977.5
Goodwill (note 7).....	4,694.9	4,817.0
Intangible assets subject to amortization, net (note 7).....	475.6	594.8
Other assets, net (note 5).....	<u>289.1</u>	<u>303.0</u>
Total assets.....	€ 10,155.5	€ 10,854.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS - continued**  
**(unaudited)**

	September 30, <u>2009</u>	December 31, <u>2008</u>
	in millions	
<b>LIABILITIES AND OWNERS' DEFICIT</b>		
Current liabilities:		
Accounts payable:		
Third party .....	€ 215.2	€ 266.4
Related party (note 10) .....	15.7	17.5
Accrued liabilities:		
Third party .....	457.7	503.4
Related party (note 10) .....	2.4	0.8
Deferred revenue and advance payments from subscribers and others .....	278.4	441.0
Current portion of debt and capital lease obligations (note 8) .....	13.9	12.7
Derivative instruments (note 5) .....	<u>327.7</u>	<u>274.8</u>
Total current liabilities .....	1,311.0	1,516.6
Long-term debt and capital lease obligations (note 8):		
Third party .....	8,055.7	7,775.1
Related party (note 10) .....	8,030.9	8,480.8
Deferred tax liabilities .....	39.1	87.1
Other long-term liabilities (notes 5 and 10) .....	<u>1,186.2</u>	<u>671.5</u>
Total liabilities .....	<u>18,622.9</u>	<u>18,531.1</u>
Commitments and contingencies (notes 5, 8 and 11)		
Owners' deficit:		
Parent's deficit:		
Distributions and accumulated losses in excess of contributions .....	(8,573.2)	(7,762.4)
Accumulated other comprehensive loss, net of taxes .....	<u>(41.4)</u>	<u>(52.4)</u>
Total parent's deficit .....	(8,614.6)	(7,814.8)
Noncontrolling interests .....	<u>147.2</u>	<u>138.4</u>
Total owners' deficit .....	<u>(8,467.4)</u>	<u>(7,676.4)</u>
Total liabilities and owners' deficit .....	€ 10,155.5	€ 10,854.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
Revenue (note 10) .....	€ 861.5	€ 870.7	€ 2,571.0	€ 2,601.7
Operating costs and expenses:				
Operating (other than depreciation and amortization) (including stock-based compensation) (notes 9 and 10) .....	306.6	313.7	929.4	951.9
Selling, general and administrative (SG&A) (including stock-based compensation) (notes 9 and 10) .....	145.2	154.3	447.6	481.6
Related-party fees and allocations, net (note 10) .....	(4.5)	(7.4)	(15.1)	(15.5)
Depreciation and amortization .....	265.6	269.2	790.9	810.7
Impairment, restructuring and other operating charges (credits), net (note 7) .....	(0.4)	1.0	89.1	5.9
	<u>712.5</u>	<u>730.8</u>	<u>2,241.9</u>	<u>2,234.6</u>
Operating income .....	<u>149.0</u>	<u>139.9</u>	<u>329.1</u>	<u>367.1</u>
Non-operating income (expense):				
Interest expense:				
Related party (note 10) .....	(157.4)	(153.2)	(475.6)	(469.8)
Third party .....	(101.6)	(116.1)	(282.5)	(337.1)
Interest income .....	3.8	5.0	13.7	17.1
Realized and unrealized losses on derivative instruments, net (notes 5 and 6) .....	(187.5)	(72.5)	(474.9)	(117.5)
Foreign currency transaction gains (losses), net .....	115.7	(179.5)	101.0	71.2
Unrealized gains due to changes in fair values of certain investments, net (notes 4 and 6) .....	1.5	1.4	3.6	1.8
Losses on debt modifications (note 8) .....	(0.7)	—	(18.0)	—
Other income (expense), net .....	<u>2.7</u>	<u>(0.3)</u>	<u>1.5</u>	<u>(0.4)</u>
	<u>(323.5)</u>	<u>(515.2)</u>	<u>(1,131.2)</u>	<u>(834.7)</u>
Loss from continuing operations before income taxes .....	(174.5)	(375.3)	(802.1)	(467.6)
Income tax benefit (expense) .....	<u>(1.1)</u>	<u>5.4</u>	<u>16.6</u>	<u>(41.7)</u>
Loss from continuing operations .....	(175.6)	(369.9)	(785.5)	(509.3)
Discontinued operations (note 3):				
Earnings (loss) from discontinued operations, net of taxes .....	(1.4)	2.7	2.7	8.6
Gain on disposal of discontinued operations .....	<u>15.2</u>	<u>—</u>	<u>15.2</u>	<u>—</u>
	<u>13.8</u>	<u>2.7</u>	<u>17.9</u>	<u>8.6</u>
Net loss .....	(161.8)	(367.2)	(767.6)	(500.7)
Net earnings attributable to noncontrolling interests .....	<u>(5.5)</u>	<u>(4.4)</u>	<u>(11.6)</u>	<u>(17.8)</u>
Net loss attributable to parent .....	<u>€ (167.3)</u>	<u>€ (371.6)</u>	<u>€ (779.2)</u>	<u>€ (518.5)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
Net loss.....	€ (161.8)	€ (367.2)	€ (767.6)	€ (500.7)
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments.....	(40.0)	56.0	25.7	29.3
Pension related adjustments .....	<u>—</u>	<u>0.1</u>	<u>—</u>	<u>0.4</u>
Other comprehensive earnings (loss) .....	<u>(40.0)</u>	<u>56.1</u>	<u>25.7</u>	<u>29.7</u>
Comprehensive loss.....	(201.8)	(311.1)	(741.9)	(471.0)
Comprehensive loss (earnings) attributable to noncontrolling interests.....	<u>0.7</u>	<u>(10.2)</u>	<u>(17.5)</u>	<u>(13.9)</u>
Comprehensive loss attributable to parent .....	<u>€ (201.1)</u>	<u>€ (321.3)</u>	<u>€ (759.4)</u>	<u>€ (484.9)</u>

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**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED STATEMENT OF OWNERS' DEFICIT**  
**(unaudited)**

	Parent's deficit				
	Distributions and accumulated losses in excess of contributions	Accumulated other comprehensive loss, net of taxes	Total parent's deficit in millions	Noncontrolling interests	Total owners' deficit
Balance at January 1, 2009.....	€ (7,762.4)	€ (52.4)	€ (7,814.8)	€ 138.4	€ (7,676.4)
Net loss .....	(779.2)	—	(779.2)	11.6	(767.6)
Other comprehensive earnings, net of taxes.....	—	19.8	19.8	5.9	25.7
Stock-based compensation, including related taxes (notes 9 and 10) .....	25.6	—	25.6	—	25.6
Capital charges and distributions in connection with LGI stock incentive awards (note 10) .....	(51.8)	—	(51.8)	—	(51.8)
Adjustments due to changes in subsidiaries' equity and other, net.....	(5.4)	(8.8)	(14.2)	(8.7)	(22.9)
Balance at September 30, 2009 .....	<u>€ (8,573.2)</u>	<u>€ (41.4)</u>	<u>€ (8,614.6)</u>	<u>€ 147.2</u>	<u>€ (8,467.4)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**UPC HOLDING B.V.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

	Nine months ended September 30,	
	2009	2008
	in millions	
Cash flows from operating activities:		
Net loss .....	€ (767.6)	€ (500.7)
Earnings from discontinued operations .....	(17.9)	(8.6)
Loss from continuing operations .....	(785.5)	(509.3)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Stock-based compensation expense .....	23.4	28.6
Related-party fees and allocations, net .....	(15.1)	(15.5)
Depreciation and amortization .....	790.9	810.7
Impairment, restructuring and other operating charges, net .....	89.1	5.9
Non-cash interest on shareholder loan .....	475.6	469.8
Amortization of deferred financing costs and non-cash interest .....	11.1	6.1
Realized and unrealized losses on derivative instruments, net .....	474.9	117.5
Foreign currency transaction gains, net .....	(101.0)	(71.2)
Unrealized gains due to changes in fair values of certain investments, net .....	(3.6)	(1.8)
Losses on debt modifications .....	18.0	—
Deferred income tax expense (benefit) .....	(28.2)	31.0
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions .....	(297.1)	(141.6)
Net cash provided by operating activities of discontinued operations .....	8.8	13.8
Net cash provided by operating activities .....	661.3	744.0
Cash flows from investing activities:		
Capital expended for property and equipment .....	(649.1)	(683.4)
Proceeds received upon disposition of discontinued operations, net of disposal costs .....	118.5	—
Cash paid in connection with acquisitions, net of cash acquired .....	(3.4)	(44.3)
Other investing activities, net .....	2.0	1.2
Net cash used by investing activities of discontinued operations .....	(6.9)	(11.7)
Net cash used by investing activities .....	(538.9)	(738.2)
Cash flows from financing activities:		
Borrowings of third-party debt .....	1,158.6	905.6
Repayments of third-party debt and capital lease obligations .....	(773.8)	(10.1)
Net repayments of shareholder loan .....	(458.5)	(985.9)
Payment of financing costs .....	(60.3)	(5.0)
Other financing activities, net .....	(17.2)	(7.7)
Net cash used by financing activities .....	(151.2)	(103.1)
Effect of exchange rates on cash .....	(0.4)	(17.2)
Net increase (decrease) in cash and cash equivalents:		
Continuing operations .....	(31.1)	(116.6)
Discontinued operations .....	1.9	2.1
Net decrease in cash and cash equivalents .....	(29.2)	(114.5)
Cash and cash equivalents, beginning of period .....	108.6	153.6
Cash and cash equivalents, end of period .....	€ 79.4	€ 39.1
Cash paid for interest .....	€ 279.5	€ 478.0
Net cash paid for taxes .....	€ 5.1	€ 10.0

The accompanying notes are an integral part of these condensed consolidated financial statements.



**UPC HOLDING B.V.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**  
**(unaudited)**

**(1) Basis of Presentation**

UPC Holding B.V. (UPC Holding), is an indirect wholly-owned subsidiary of Liberty Global Europe, N.V. (Liberty Global Europe). Liberty Global Europe is an indirect wholly-owned subsidiary of UnitedGlobalCom, Inc. (UGC), which in turn is an indirect wholly-owned subsidiary of Liberty Global, Inc. (LGI). UPC Holding is an international provider of video, voice and broadband internet services, with consolidated broadband communications and/or direct-to-home (DTH) satellite operations at September 30, 2009 in nine European countries and in Chile. Our European broadband communications operations are collectively referred to as the UPC Broadband Division. Our broadband communications operations in Chile are provided through our 80%-owned indirect subsidiary, VTR Global Com S.A. (VTR). In the following text, the terms "we," "our," "our company," and "us" may refer, as the context requires, to UPC Holding or collectively to UPC Holding and its subsidiaries.

On July 15, 2009, one of our subsidiaries sold 100% of its interest in our Slovenian cable operations (UPC Slovenia). Accordingly, we have presented UPC Slovenia as a discontinued operation in our condensed consolidated statements of operations and cash flows and related footnote disclosures. See note 3.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Accordingly, these financial statements do not include all of the information required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our 2008 annual financial statements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectible accounts, deferred income taxes and related valuation allowances, loss contingencies, fair values of derivative instruments, financial instruments and investments, fair values of long-lived assets and any related impairments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets, actuarial liabilities associated with certain benefit plans and stock-based compensation. Actual results could differ from those estimates.

Unless otherwise indicated, convenience translations into euros are calculated as of September 30, 2009.

Certain prior period amounts have been reclassified to conform to the current year presentation.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through November 18, 2009, the date of issuance.

**(2) Accounting Changes and Recent Accounting Pronouncements**

***Accounting Changes***

***SFAS 168***

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162), which identified the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with U.S. GAAP. In June 2009, SFAS 162 was replaced by SFAS No. 168, *The FASB Accounting Standard Codification and the Hierarchy of Generally Accepted Accounting Principles – replacement of FASB Statement No. 162* (SFAS 168), subsequently codified within FASB Accounting Standards Codification (FASB ASC) Topic 105, *Generally Accepted Accounting Principles*. The FASB ASC is now the source of authoritative U.S. GAAP recognized by the FASB and is applicable for fiscal years and interim periods

**UPC HOLDING B.V.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**September 30, 2009**  
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ending after September 15, 2009. We adopted SFAS 168 effective July 1, 2009 and such adoption did not have a material impact on our condensed consolidated financial statements.

*SFAS 141(R)*

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), subsequently codified within FASB ASC Topic 805, *Business Combinations*. SFAS 141(R) replaces SFAS 141, *Business Combinations*, and, among other items, generally requires an acquirer in a business combination to recognize (i) the assets acquired, (ii) the liabilities assumed (including those arising from contractual contingencies), (iii) any contingent consideration and (iv) any noncontrolling interest in the acquiree at the acquisition date, at fair values as of that date. The requirements of SFAS 141(R) will result in the recognition by the acquirer of goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) also provides that the acquirer shall not adjust the finalized accounting for business combinations, including business combinations completed prior to the effective date of SFAS 141(R), for changes in acquired tax uncertainties or changes in the valuation allowances for acquired deferred tax assets that occur subsequent to the effective date of SFAS 141(R). SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We prospectively adopted the provisions of SFAS 141(R) effective January 1, 2009.

*SFAS 157*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), subsequently codified within various FASB ASC Topics, primarily FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (FASB ASC 820). SFAS 157 defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2007. However, the effective date of SFAS 157 was deferred to fiscal years beginning after November 15, 2008 and interim periods within those years as it relates to fair value measurement requirements for (i) nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis (e.g. asset retirement obligations, restructuring liabilities and assets and liabilities acquired in business combinations) and (ii) fair value measurements required for impairment assessments. We prospectively adopted SFAS 157 (exclusive of the deferred provisions discussed above) effective January 1, 2008. We prospectively adopted the deferred provisions of SFAS 157 effective January 1, 2009.

*SFAS 160*

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), subsequently codified within FASB ASC Topic 810, *Consolidation* (FASB ASC 810). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also states that a noncontrolling interest in a subsidiary is an ownership interest in a consolidated entity that should be reported as equity in the consolidated financial statements. In addition, SFAS 160 requires (i) that consolidated net income include the amounts attributable to both the parent and noncontrolling interest, (ii) that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and (iii) expanded disclosures that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods beginning on or after December 15, 2008. We adopted SFAS 160 effective January 1, 2009 and such adoption resulted in a change in the presentation of minority interests in subsidiaries, which was retrospectively reclassified to "noncontrolling interests" within equity.

*FSP 142-3*

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3), subsequently codified within FASB ASC Topic 350, *Intangibles – Goodwill and Other*, and FASB ASC Topic 275, *Risks and Uncertainties*. FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets. This change is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. FSP 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. This new guidance applies prospectively to

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intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We prospectively adopted the provisions of FSP 142-3 on January 1, 2009.

*FSP 157-4*

In April 2009, the FASB issued FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), subsequently codified within FASB ASC 820. FSP 157-4 clarifies that transaction or quoted prices may not be determinative of fair value when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also includes guidance with respect to the circumstances that indicate a transaction is not orderly and the resulting ramifications on the fair value measurement for the asset or liability. FSP 157-4 is effective for interim and annual periods ending after June 15, 2009 and shall be applied prospectively. We adopted FSP 157-4 effective June 30, 2009 and such adoption did not have a material impact on our condensed consolidated financial statements.

*FSP 107-1*

In April 2009, the FASB issued FSP No. 107, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1), subsequently codified within FASB ASC Topic 825, *Financial Instruments*. FSP 107-1 requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP 107-1 is effective for interim periods ending after June 15, 2009. We adopted FSP 107-1 effective June 30, 2009 and such adoption did not have a material impact on our condensed consolidated financial statements.

***Recent Accounting Pronouncements***

*SFAS 166*

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140* (SFAS 166). FASB Statement No. 140, as amended by SFAS 166, was subsequently codified within various FASB ASC Topics, primarily FASB ASC Topic 860, *Transfers and Servicing*. SFAS 166, among other matters, (i) eliminates the concept of a qualifying special-purpose entity, (ii) creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, (iii) clarifies other sale-accounting criteria and (iv) changes the initial measurement of a transferor's interest in transferred financial assets. SFAS 166 is applicable for fiscal years and interim periods beginning after November 15, 2009. We do not expect our adoption of SFAS 166 to have a material impact on our consolidated financial statements.

*SFAS 167*

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). FASB Interpretation No. 46(R) (FIN 46(R)), as amended by SFAS 167, was subsequently codified within various FASB ASC Topics, primarily FASB ASC 810. SFAS 167, among other matters, (i) eliminates the exceptions of FIN 46(R) with respect to the consolidation of qualifying special-purpose entities, (ii) contains new criteria for determining the primary beneficiary and (iii) increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also contains a new requirement that any term, transaction or arrangement that does not have a substantive effect on an entity's status as a variable interest entity, a company's power over a variable interest entity or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying the provisions of FASB Interpretation No. 46(R). SFAS 167 is applicable for fiscal years and interim periods beginning after November 15, 2009. We have not completed our analysis of the impact of SFAS 167 on our consolidated financial statements.

*ASU 2009-05*

In August 2009, the FASB issued Accounting Standards Update (FASB ASU) No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value* (FASB ASU 2009-05). FASB ASU 2009-05 provides clarification in measuring the fair value of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available and in circumstances in which a liability is restricted from

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being transferred. FASB ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. We will adopt FASB ASU 2009-05 in the fourth quarter of 2009 and do not expect this adoption to have a material impact on our consolidated financial statements.

*FSP 132(R)-1*

In December 2008, the FASB issued FSP No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, (FSP 132(R)-1), subsequently codified within FASB ASC Topic 715, *Compensation – Retirement Benefits*. FSP 132(R)-1 provides guidance on an employer's disclosures regarding plan assets of a defined benefit pension or other postretirement plan. The guidance provided by FSP 132(R)-1 is intended to ensure that an employer meets the objectives of the plan assets' disclosures in an employer's defined benefit pension or other postretirement plan. FSP 132(R)-1 is applicable for fiscal years ending after December 15, 2009, with earlier application permitted. We do not expect our adoption of FSP 132(R)-1 to have a material impact on our consolidated financial statements.

*ASU 2009-13*

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force* (FASB ASU 2009-13). FASB ASU 2009-13 provides amendments to the criteria for separating consideration in multiple-deliverable arrangements by establishing an expanded selling price hierarchy for determining the selling price of a deliverable. FASB ASU 2009-13 also replaces the term "fair value" in the revenue allocation guidance with "selling price" to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. FASB ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We have not yet completed our evaluation of the impact of FASB ASU 2009-13 on our consolidated financial statements.

**(3) Common Control Transfer and Disposition**

***Chellomedia Interactive Services Group***

Effective April 1, 2008, the business activities and certain assets of Chellomedia Interactive Services Group were transferred from Chellomedia BV (Chellomedia), another subsidiary of Liberty Global Europe, to UPC Holding for no material consideration. Chellomedia is a direct subsidiary of Liberty Global Europe. Due to the relative immateriality of the amounts involved, we did not restate our consolidated financial statements and as such we recorded the carrying value of the assets transferred of €10.1 million as a capital transaction during the three months ended June 30, 2008.

***Disposition of UPC Slovenia***

On July 15, 2009, one of our subsidiaries sold 100% of its interest in UPC Slovenia to Mid Europa Partners for a cash purchase price of €119.5 million, before working capital adjustments. As a result of this disposition, we have accounted for UPC Slovenia as a discontinued operation. In the table below, UPC Slovenia's net results from July 1, 2009 through the date of sale include only severance payments and bonuses that were paid in connection with the disposition. In connection with the disposal of UPC Slovenia, we recognized a net gain of €15.2 million. This net gain is reflected in discontinued operations in our condensed consolidated statements of operations for the three and nine months ended September 30, 2009.

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The operating results of UPC Slovenia that are classified as discontinued operations in our condensed consolidated statements of operations are summarized in the following table:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
Revenue .....	€ —	€ 10.9	€ 22.7	€ 31.8
Operating income (loss) .....	€ (1.4)	€ 3.0	€ 2.4	€ 9.3
Earnings (loss) before income taxes and noncontrolling interests .	€ (1.4)	€ 3.1	€ 2.5	€ 9.5

**(4) Investments**

The details of our investments are set forth below:

<u>Accounting Method</u>	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	in millions	
Fair value (a) .....	€ 29.6	€ 27.6
Equity .....	2.9	3.1
Cost .....	0.4	0.4
Total .....	€ 32.9	€ 31.1

(a) At September 30, 2009, investments accounted for using the fair value method consist of our investments in certain broadband communications operators in Switzerland.

We have elected the fair value method for most of our investments as we believe this method generally provides the most meaningful information to our investors. However, for investments over which we have significant influence, we have considered the significance of transactions between our company and our equity affiliates and other factors in determining whether the fair value method should be applied. In general, we have not elected the fair value option for those equity method investments with which UPC Holding or its consolidated subsidiaries have significant related-party transactions. For additional information regarding our fair value method investments, see note 6.

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**(5) Derivative Instruments**

Through our subsidiaries, we have entered into various derivative instruments to manage interest rate and foreign currency exposure with respect to the euro (€), the U.S. dollar (\$), the Czech koruna (CZK), the Hungarian forint (HUF), the Polish zloty (PLN), the Romanian lei (RON), the Swiss franc (CHF) and the Chilean peso (CLP). We did not apply hedge accounting to our derivative instruments during the reported 2009 and 2008 periods. Accordingly, changes in the fair values of all other derivative instruments are recorded in realized and unrealized gains (losses) on derivative instruments in our condensed consolidated statements of operations. The following table provides details of the fair values of our derivative instrument assets and liabilities:

	<u>September 30, 2009</u>			<u>December 31, 2008</u>		
	<u>Current</u>	<u>Long-term (a)</u>	<u>Total</u>	<u>Current</u>	<u>Long-term (a)</u>	<u>Total</u>
	in millions					
<b>Assets:</b>						
Cross-currency and interest rate						
derivative contracts (b) .....	€ 51.6	€ 143.4	€ 195.0	€ 130.1	€ 197.1	€ 327.2
Foreign currency forward contracts .....	—	—	—	3.8	—	3.8
Embedded derivatives .....	<u>0.3</u>	<u>0.4</u>	<u>0.7</u>	<u>0.2</u>	<u>0.5</u>	<u>0.7</u>
Total .....	<u>€ 51.9</u>	<u>€ 143.8</u>	<u>€ 195.7</u>	<u>€ 134.1</u>	<u>€ 197.6</u>	<u>€ 331.7</u>
<b>Liabilities:</b>						
Cross-currency and interest rate						
derivative contracts (b) .....	€ 325.2	€ 590.3	€ 915.5	€ 274.0	€ 553.5	€ 827.5
Foreign currency forward contracts .....	2.2	—	2.2	—	—	—
Embedded derivatives .....	<u>0.3</u>	<u>0.8</u>	<u>1.1</u>	<u>0.8</u>	<u>0.7</u>	<u>1.5</u>
Total .....	<u>€ 327.7</u>	<u>€ 591.1</u>	<u>€ 918.8</u>	<u>€ 274.8</u>	<u>€ 554.2</u>	<u>€ 829.0</u>

(a) Our long-term derivative assets and liabilities are included in other assets and other long-term liabilities, respectively, in our condensed consolidated balance sheets.

(b) As of September 30, 2009, the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €6.8 million and the fair values of our cross-currency and interest rate derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating €72.7 million. The adjustments to our derivative assets relate to the credit risk associated with counterparty nonperformance and the adjustments to our derivative liabilities relate to credit risk associated with our own nonperformance. In all cases, the adjustments take into account offsetting liability or asset positions within a given contract. Our determination of credit risk valuation adjustments generally is based on our and our counterparties' credit risks, as observed in the credit default swap market, and market quotations for certain of our subsidiaries' debt instruments, as applicable. The change in the credit risk valuation adjustments associated with our derivative instruments resulted in a gain of €7.9 million and a loss of €0.5 million during the three and nine months ended September 30, 2009, respectively, which are included in realized and unrealized losses on derivative instruments in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 6.

The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
Cross-currency and interest rate derivative contracts .....	€ (192.4)	€ (67.0)	€ (472.1)	€ (118.6)
Foreign currency forward contracts .....	3.3	(5.1)	(3.3)	—
Embedded derivatives .....	<u>1.6</u>	<u>(0.4)</u>	<u>0.5</u>	<u>1.1</u>
Total .....	<u>€ (187.5)</u>	<u>€ (72.5)</u>	<u>€ (474.9)</u>	<u>€ (117.5)</u>

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The net cash received (paid) related to our derivative instruments is classified as an operating, investing or financing activity in our condensed consolidated statements of cash flows based on the classification of the applicable underlying cash flows. The classifications of these cash flows are as follows:

		Nine months ended September 30,	
		2009	2008
		in millions	
Operating activities.....	€	(233.3)	€ 26.6
Financing activities.....		(13.9)	3.1
Total .....	€	<u>(247.2)</u>	<u>€ 29.7</u>

***Counterparty Credit Risk***

We are exposed to the risk that the counterparties to our derivative contracts will default on their obligations to us. We manage these credit risks through the evaluation and monitoring of the creditworthiness of, and concentration of risk with, the respective counterparties. In this regard, credit risk associated with our derivative contracts is spread across a relatively broad counterparty base of banks and financial institutions. We generally do not require counterparties to our derivative instruments to provide collateral or other security or to enter into master netting arrangements. At September 30, 2009, our exposure to credit risk included derivative assets with a fair value of €195.7 million.

Under our derivative contracts, the exercise of termination and set-off provisions is generally at the option of the non-defaulting party only. However, in an insolvency of a derivative counterparty, a liquidator may be able to force the termination of a derivative contract. In addition, mandatory set-off of amounts due under the derivative contract and potentially other contracts between our company and the relevant counterparty may be applied under the insolvency regime of the relevant jurisdiction. Accordingly, it is possible that we could be required to make payments to an insolvent counterparty even if that counterparty had previously defaulted on its obligations under a derivative contract with our company. While we anticipate that, in the event of the insolvency of one of our derivative counterparties, we would seek to novate our derivative contracts to different counterparties, no assurance can be given that we would be able to do this on terms or pricing that would be acceptable to us. If we are unable to, or choose not to, novate to a different counterparty, the risks that were the subject of the original derivative contract would no longer be hedged.

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***Cross-currency and Interest Rate Derivative Contracts***

*Cross-currency Swaps:*

The terms of our outstanding cross-currency swap contracts at September 30, 2009 are as follows:

<b><u>Subsidiary (a)</u></b>	<b><u>Notional amount due from counterparty</u></b>	<b><u>Notional amount due to counterparty</u></b>	<b><u>Interest rate due from counterparty</u></b>	<b><u>Interest rate due to counterparty</u></b>
	<b>in millions</b>			
UPC Holding:				
April 2016.....\$	400.0	CHF 441.8	9.88%	9.87%
UPC Broadband Holding:				
July 2010 .....€	60.0	CZK 1,703.1	5.50%	5.33%
July 2010 – December 2014 .....€	60.0	CZK 1,703.1	5.50%	6.05%
February 2010 .....€	105.8	CZK 3,018.7	5.50%	4.88%
February 2010 – December 2014 .....€	105.8	CZK 3,018.7	5.50%	5.80%
December 2014 .....€	200.0	CZK 5,800.0	5.46%	5.30%
July 2010 .....€	260.0	HUF 75,570.0	5.50%	7.80%
July 2010 – December 2014 .....€	260.0	HUF 75,570.0	5.50%	9.40%
December 2014 .....€	228.0	HUF 62,867.5	5.50%	8.98%
July 2010 .....€	245.0	PLN 1,000.6	5.50%	6.52%
July 2010 – December 2014 .....€	245.0	PLN 1,000.6	5.50%	7.60%
December 2014 .....€	98.4	PLN 335.0	5.50%	7.12%
December 2014 .....€	57.1	PLN 270.0	5.50%	7.60%
December 2010 – December 2016 .....€	200.0	RON 709.1	5.50%	11.38%
December 2016 .....€	31.9	RON 116.8	5.50%	11.48%
September 2012 .....€	229.1	CHF 355.8	6 mo. EURIBOR + 2.50%	6 mo. CHF LIBOR + 2.46%
December 2014 .....€	653.0	CHF 1,066.0	6 mo. EURIBOR + 2.00%	6 mo. CHF LIBOR + 1.95%
December 2014 .....€	245.4	CHF 400.0	6 mo. EURIBOR + 0.82%	6 mo. CHF LIBOR + 1.94%
December 2015 .....€	69.1	CLP 53,000.0	3.50%	5.75%
December 2014 .....\$	171.5	CHF 187.1	6 mo. LIBOR + 2.75%	6 mo. CHF LIBOR + 2.95%
December 2016 .....\$	340.0	CHF 370.9	6 mo. LIBOR + 3.50%	6 mo. CHF LIBOR + 4.01%

- (a) For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that were in effect as of September 30, 2009, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to September 30, 2009, we present a range of dates that represents the period covered by the applicable derivative instrument.



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*Cross-currency Interest Rate Swaps:*

The terms of our outstanding cross-currency interest rate swap contracts at September 30, 2009 are as follows:

<b>Subsidiary (a)</b>	<b>Notional amount due from counterparty</b>	<b>Notional amount due to counterparty</b>	<b>Interest rate due from counterparty</b>	<b>Interest rate due to counterparty</b>
	<b>in millions</b>			
UPC Broadband Holding:				
March 2013.....\$	200.0	€ 150.9	6 mo. LIBOR + 2.00%	5.73%
December 2014.....\$	725.0	€ 547.3	6 mo. LIBOR + 1.75%	5.74%
December 2016.....\$	160.0	€ 120.7	6 mo. LIBOR + 3.50%	7.56%
December 2010.....\$	292.0	RON 709.1	6 mo. LIBOR + 3.50%	10.24%
December 2016.....\$	84.1	RON 203.3	6 mo. LIBOR + 3.50%	13.35%
December 2014.....\$	340.0	CLP 181,322.0	6 mo. LIBOR + 1.75%	8.76%
December 2014.....€	134.3	CLP 107,800.0	6 mo. EURIBOR + 2.00%	10.00%
VTR:				
September 2014.....\$	460.8	CLP 255,025.1	6 mo. LIBOR + 3.00%	11.16%

- (a) For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that were in effect as of September 30, 2009, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to September 30, 2009, we present a range of dates that represents the period covered by the applicable derivative instrument.

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*Interest Rate Swaps:*

The terms of our outstanding interest rate swap contracts at September 30, 2009 are as follows:

<u>Subsidiary (a)</u>	<u>Notional amount</u> <u>in millions</u>	<u>Interest rate</u> <u>due from</u> <u>counterparty</u>	<u>Interest rate</u> <u>due to</u> <u>counterparty</u>
UPC Broadband Holding:			
January 2010 .....	€ 3,890.0	1 mo. EURIBOR + 2.00%	6 mo. EURIBOR + 1.81%
January 2010 .....	€ 655.0	1 mo. EURIBOR + 2.25%	6 mo. EURIBOR + 1.61%
April 2012 .....	€ 555.0	6 mo. EURIBOR	3.32%
December 2014 .....	€ 659.5	6 mo. EURIBOR	4.67%
July 2010 (b) .....	€ 31.6	5.50%	5.67%
April 2010 .....	€ 1,000.0	6 mo. EURIBOR	3.28%
April 2010 – December 2014 .....	€ 1,000.0	6 mo. EURIBOR	4.66%
January 2011 .....	€ 193.5	6 mo. EURIBOR	3.83%
January 2011 – December 2014 .....	€ 193.5	6 mo. EURIBOR	4.68%
September 2012 .....	€ 500.0	3 mo. EURIBOR	2.96%
December 2013 .....	€ 90.5	6 mo. EURIBOR	3.84%
January 2014 .....	€ 185.0	6 mo. EURIBOR	4.04%
April 2012 – July 2014 .....	€ 337.0	6 mo. EURIBOR	3.94%
April 2012 - December 2015 .....	€ 263.0	6 mo. EURIBOR	3.97%
January 2015 – December 2016 .....	€ 500.0	6 mo. EURIBOR	4.32%
December 2010 .....	CHF 618.5	6 mo. CHF LIBOR	2.19%
January 2011 – December 2014 .....	CHF 618.5	6 mo. CHF LIBOR	3.56%
September 2012 .....	CHF 711.5	6 mo. CHF LIBOR	2.33%
October 2012 – December 2014 .....	CHF 711.5	6 mo. CHF LIBOR	3.65%
December 2014 .....	CHF 1,050.0	6 mo. CHF LIBOR	3.47%
January 2015 – December 2016 .....	CHF 370.9	6 mo. CHF LIBOR	3.82%
July 2013 .....	CLP 98,400.0	6.77%	6 mo. TAB
January 2010 .....	\$ 511.0	1 mo. LIBOR + 2.75%	6 mo. LIBOR + 2.17%
January 2010 .....	\$ 1,900.0	1 mo LIBOR + 1.75%	6 mo. LIBOR + 1.54%
July 2013 .....	HUF 5,908.8	6 mo. BUBOR	8.52%
July 2013 .....	PLN 115.1	6 mo. WIBOR	5.41%
VTR:			
July 2013 .....	CLP 98,400.0	6 mo. TAB	7.78%

(a) For each subsidiary, the notional amount of multiple derivative instruments that mature within the same calendar month are shown in the aggregate and interest rates are presented on a weighted average basis. For derivative instruments that were in effect as of September 30, 2009, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to September 30, 2009, we present a range of dates that represents the period covered by the applicable derivative instrument.

(b) This contract originated as a cross-currency interest rate swap involving the euro and the Slovakian koruna (SKK). As a result of Slovakia's January 1, 2009 conversion to the euro, the SKK notional amount was converted into euros at the entry rate of 30.126 SKK per euro.

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***UPC Holding Cross-Currency Options***

Pursuant to our cross-currency option contracts, we have the option to require the counterparty to deliver U.S. dollars in exchange for Swiss francs at a fixed exchange rate of 1.10 Swiss francs per one U.S. dollar, in the notional amounts listed below:

<u>Contract expiration date</u>	<u>Notional amount at September 30, 2009 in millions</u>
October 13, 2016.....	\$ 19.8
April 12, 2017.....	\$ 19.8
October 12, 2017.....	\$ 19.8
April 12, 2018.....	\$ 419.8

***Foreign Currency Forwards***

The following table summarizes our outstanding foreign currency forward contracts at September 30, 2009:

<u>Subsidiary</u>	<u>Currency purchased forward</u>	<u>Currency sold forward</u>	<u>Maturity dates</u>
	<u>in millions</u>		
UPC Broadband Holding.....	€ 4.1	HUF 1,125.1	October 2009 – July 2010
UPC Broadband Holding.....	€ 1.1	PLN 4.6	October 2009 – July 2010
UPC Broadband Holding.....	€ 2.0	CZK 50.3	October 2009 – March 2010
VTR.....	\$ 63.2	CLP 36,398.8	October 2009 — September 2010

**(6) Fair Value Measurements**

We use the fair value method to account for (i) certain of our investments and (ii) our derivative instruments. The reported fair values of these assets and liabilities as of September 30, 2009 likely will not represent the value that will be realized upon the ultimate settlement or disposition of these assets and liabilities. In the case of the investments that we account for using the fair value method, the values we realize upon disposition will be dependent upon, among other factors, market conditions and the historical and forecasted financial performance of the investees at the time of any such disposition. With respect to our foreign currency and interest rate derivative instruments, we expect that the values realized generally will be based on market conditions at the time of settlement, which may occur at the maturity of the derivative instrument or at the time of the repayment or refinancing of the underlying debt instrument.

U.S. GAAP provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

All of our Level 2 inputs (interest rates, yield curves, dividend yields and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (forecasted volatilities and credit spreads) are obtained from pricing services. These inputs, or interpolations or extrapolations thereof, are used in our internal models to calculate, among other items, yield curves, forward interest and currency rates and weighted average cost of capital rates. In the normal course of business, we receive fair value assessments from the counterparties to our derivative contracts. Although we compare these assessments to our internal valuations and investigate unexpected differences, we do not otherwise rely on counterparty quotes to determine the fair values of our derivative instruments. As allowed by U.S. GAAP, the midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

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Our investments that we account for at fair value are privately-held companies, and therefore, quoted market prices are unavailable. The valuation technique we use for such investments is a combination of an income approach (discounted cash flow model based on forecasts) and a market approach (market multiples of similar businesses). With the exception of certain inputs for our weighted average cost of capital calculations that are derived from pricing services, the inputs used to value these investments are based on unobservable inputs derived from our assumptions. Therefore, the valuation of our privately-held investments falls under Level 3 of the fair value hierarchy.

As further described in note 5, we have entered into various derivative instruments to manage our interest rate and foreign currency exchange risk. The fair value measurements of these derivative instruments are determined using cash flow models. All but one of the inputs to these cash flow models consist of, or are derived from, observable Level 2 data for substantially the full term of these derivative instruments. This observable data includes interest rates, swap rates and yield curves, which are retrieved or derived from available market data. Although we may extrapolate or interpolate this data, we do not otherwise alter this data in performing our valuations. U.S. GAAP requires the incorporation of a credit risk valuation adjustment in our fair value measurements to estimate the impact of both our own nonperformance risk and the nonperformance risk of our counterparties. Our and our counterparties' credit spreads are Level 3 inputs that are used to derive the credit risk valuation adjustments with respect to our various interest rate and foreign currency derivative valuations. As we would not expect changes in our or our counterparties' credit spreads to have a significant impact on the valuations of these derivative instruments, we believe that these valuations fall under Level 2 of the fair value hierarchy. Our credit risk valuation adjustments with respect to our cross-currency and interest rate swaps are quantified and further explained in note 5.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations typically involve the use of discounted cash flow analyses to assess enterprise values, the values of customer relationship intangible assets, the implied value of goodwill and the values of certain other assets and liabilities. With the exception of certain inputs for our weighted average cost of capital calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. Accordingly, nonrecurring valuations that involve the use of discounted cash flow analyses fall under Level 3 of the fair value hierarchy. During June 2009, we performed nonrecurring fair value measurements in connection with a goodwill impairment assessment. See note 7.

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A summary of the assets and liabilities that are measured at fair value is as follows:

<u>Description</u>	<u>September 30, 2009</u>	<u>Fair value measurements at September 30, 2009 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<u>in millions</u>	
Assets:			
Derivative instruments.....	€ 195.7	€ 195.7	€ —
Investments.....	29.6	—	29.6
Total assets.....	€ 225.3	€ 195.7	€ 29.6
Liabilities — Derivative instruments.....	€ 918.8	€ 918.8	€ —

<u>Description</u>	<u>December 31, 2008</u>	<u>Fair value measurements at December 31, 2008 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<u>in millions</u>	
Assets:			
Derivative instruments.....	€ 331.7	€ 331.7	€ —
Investments.....	27.6	—	27.6
Total assets.....	€ 359.3	€ 331.7	€ 27.6
Liabilities — Derivative instruments.....	€ 829.0	€ 829.0	€ —

A reconciliation of the beginning and ending balances of our investments that are measured at fair value using significant unobservable, or Level 3, inputs is as follows (in millions):

Balance at January 1, 2009.....	€ 27.6
Gains included in net loss (a):	
Unrealized gains due to changes in fair values of certain investments, net.....	3.6
Foreign currency translation adjustments.....	(1.6)
Balance at September 30, 2009.....	€ 29.6

- (a) All of the gains recognized during the nine months ended September 30, 2009 relate to investments that we continue to carry on our condensed consolidated balance sheet as of September 30, 2009.

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**(7) Long-lived Assets**

***Property and Equipment, Net***

The details of our property and equipment and the related accumulated depreciation are set forth below:

	September 30, 2009	December 31, 2008
	in millions	
Distribution systems.....	€ 6,108.5	€ 5,714.2
Support equipment, buildings and land .....	991.8	899.5
	7,100.3	6,613.7
Accumulated depreciation .....	(3,259.5)	(2,636.2)
Total property and equipment, net .....	€ 3,840.8	€ 3,977.5

***Goodwill***

Changes in the carrying amount of goodwill for the nine months ended September 30, 2009 were as follows:

	January 1, 2009	Acquisition- related adjustments	Impairments	Reclassified to discontinued operations	Foreign currency translation adjustments and other	September 30, 2009
	in millions					
UPC Broadband Division:						
The Netherlands .....	€ 917.5	€ —	€ —	€ —	€ (5.4)	€ 912.1
Switzerland .....	1,905.4	0.4	—	—	(33.5)	1,872.3
Austria .....	603.1	—	—	—	—	603.1
Ireland .....	178.5	—	—	—	—	178.5
Total Western Europe.....	3,604.5	0.4	—	—	(38.9)	3,566.0
Hungary .....	275.4	—	—	—	(4.0)	271.4
Other Central and Eastern Europe....	637.4	—	(84.7)	(39.6)	13.0	526.1
Total Central and Eastern Europe ...	912.8	—	(84.7)	(39.6)	9.0	797.5
Total UPC Broadband Division ....	4,517.3	0.4	(84.7)	(39.6)	(29.9)	4,363.5
VTR (Chile) .....	299.7	—	—	—	31.7	331.4
Total UPC Holding .....	€ 4,817.0	€ 0.4	€ (84.7)	€ (39.6)	€ 1.8	€ 4,694.9

During the fourth quarter of 2008, we recorded a €107.0 million goodwill impairment charge with respect to our broadband communications reporting unit in Romania. During June 2009, we concluded that an additional goodwill impairment charge was warranted for this reporting unit, due largely to adverse competitive and economic factors, including changes in foreign currency exchange rates that adversely impacted U.S. dollar and euro denominated cash outflows. These factors led to (i) lower than expected levels of revenue, cash flows and subscribers and (ii) declines in the forecasted cash flows of our Romanian reporting unit. Consistent with our approach to the valuation of this reporting unit during the fourth quarter of 2008, our June 2009 fair value assessment was based primarily on a discounted cash flow analysis due to the limited number of recent transactions involving businesses similar to our Romanian reporting unit. Based on this discounted cash flow analysis, which reflected the aforementioned declines in forecasted cash flows and a discount rate of 19%, we determined that an additional goodwill impairment charge of €84.7 million was necessary to reflect a further decline in the fair value of our Romanian reporting unit. This impairment charge is included in impairment, restructuring and other operating charges, net, in our condensed consolidated statements of operations. Further hypothetical decreases of 20% and 30% in the June 2009 fair value of our Romanian reporting unit would have

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resulted in additional estimated goodwill impairment charges during the second quarter of 2009 ranging from approximately €30 million to €55 million and from approximately €50 million to €75 million, respectively.

We continue to experience difficult economic environments and significant competition in most of our markets. If, among other factors, (i) LGI's equity value declines or (ii) the adverse impacts of economic or competitive factors are worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Depending on (i) LGI's equity value, (ii) economic and competitive conditions and (iii) other factors, any such impairment charges could be significant.

***Intangible Assets Subject to Amortization, Net***

The details of our intangible assets subject to amortization are set forth below:

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
	in millions	
<b>Gross carrying amount:</b>		
Customer relationships .....	€ 1,077.1	€ 1,096.4
Other .....	44.8	45.8
	<u>€ 1,121.9</u>	<u>€ 1,142.2</u>
<b>Accumulated amortization:</b>		
Customer relationships .....	€ (603.6)	€ (504.4)
Other .....	(42.7)	(43.0)
	<u>€ (646.3)</u>	<u>€ (547.4)</u>
<b>Net carrying amount:</b>		
Customer relationships .....	€ 473.5	€ 592.0
Other .....	2.1	2.8
	<u>€ 475.6</u>	<u>€ 594.8</u>

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**(8) Debt and Capital Lease Obligations**

The euro equivalents of the components of our consolidated debt and capital lease obligations are as follows:

	September 30, 2009				Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)		Euro equivalent	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
		Borrowing currency						
					in millions			
Debt:								
Parent:								
Shareholder loan .....	7.58%	€	—	€ —	(e)	(e)	€ 8,030.9	€ 8,480.8
UPC Holding Senior Notes .....	8.79%	€	—	—	€ 1,594.4	€ 818.0	1,542.0	1,100.0
Subsidiaries:								
UPC Broadband Holding								
Bank Facility .....	3.56%	€	455.8	455.8	€ 5,770.7	€ 5,349.3	6,182.9	6,323.5
VTR Bank Facility (f) .....	2.68%	CLP	136,391.6	169.2	€ 314.7	€ 333.6	314.7	333.6
Other .....	6.60%		—	—	€ 6.5	€ 9.0	6.5	9.0
Total debt .....	6.05%			€ 625.0			16,077.0	16,246.9
Capital lease obligations .....							23.5	21.7
Total debt and capital lease obligations .....							16,100.5	16,268.6
Current maturities .....							(13.9)	(12.7)
Long-term debt and capital lease obligations .....							€ 16,086.6	€ 16,255.9

- (a) Represents the weighted average interest rate in effect at September 30, 2009 for all borrowings outstanding pursuant to each debt instrument, including the applicable margin. The interest rates presented represent stated rates and do not include the impact of our interest rate derivative agreements, financing costs, discounts or commitment fees, all of which affect our overall cost of borrowing. For information concerning our derivative instruments, see note 5.
- (b) Unused borrowing capacity represents the maximum availability under the applicable facility at September 30, 2009 without regard to covenant compliance calculations. At September 30, 2009, our availability under the UPC Broadband Holding Bank Facility was limited to €196.7 million. Additionally, when the September 30, 2009 bank reporting requirements have been completed, we anticipate that our availability under (i) the UPC Broadband Holding Bank Facility will be limited to €317.9 million. To the extent we were to draw on the VTR Bank Facility (as defined below) commitments, we would be required to set aside an equivalent amount of cash collateral.
- (c) The fair values of our debt instruments were determined using the average of applicable bid and ask prices or, in the case of debt that is not actively traded, discounted cash flow models. The discount rates used in the cash flow models are based on the estimated credit spread of each entity, taking into account market data, to the extent available, and other relevant factors.
- (d) Amounts include the impact of discounts, where applicable.
- (e) The fair value of the shareholder loan is not subject to reasonable estimation due to the related-party nature of the loan.
- (f) Pursuant to the deposit arrangements with the lender in relation to VTR's amended and restated senior secured credit facility (the VTR Bank Facility), we are required to fund a cash collateral account in an amount equal to the outstanding principal and interest under the VTR Bank Facility. This cash collateral account had a balance of €314.7 million at September 30, 2009, of which €3.2 million is reflected as a current asset and €311.5 million is presented as a long-term asset in our condensed consolidated balance sheet.



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***Shareholder Loan***

UPC Holding has an unsecured shareholder loan with its immediate parent, Liberty Global Europe Financing B.V. (LGE Financing), which is scheduled to be repaid in 2020 and is subordinated in right of payment to the prior payment in full of the UPC Holding Senior Notes in the event of (i) a total or partial liquidation, dissolution or winding up of UPC Holding, (ii) a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to UPC Holding or its property, (iii) an assignment for the benefit of creditors or (iv) any marshalling of UPC Holding's assets or liabilities. Accrued interest is included in other long-term liabilities and is added to the principal at the end of each fiscal year. The interest rate was 7.58% and 7.06% for the nine months ended September 30, 2009 and 2008, respectively, and is reset on an annual basis. The net decrease in the shareholder loan includes (i) cash payments of €2,155.0 million, (ii) cash borrowings of €1,696.5 million, (iii) a €4.4 million non-cash increase relating to charges from LGE to our company in connection with LGE stock incentive awards exercised by our subsidiaries' employees and (iv) individually insignificant net non-cash increases aggregating €4.2 million.

***UPC Broadband Holding Bank Facility***

The UPC Broadband Holding Bank Facility, as amended, is the senior secured credit facility of UPC Broadband Holding. During the nine months ended September 30, 2009, pursuant to various additional facility accession agreements, new Facilities Q, R, S, T and U (collectively, the New Facilities) were executed under the UPC Broadband Holding Bank Facility. Facility Q is a redrawable term loan facility. Facilities R, S, T and U are non-redrawable term loan facilities.

In connection with the completion of the New Facilities, certain of the lenders under the existing Facilities L, M and N novated their commitments to Liberty Global Europe BV (LGE Europe), a direct subsidiary of UPC Broadband Holding, and entered into the New Facilities. As a result, during the nine months ended September 30, 2009, total commitments of €670.3 million, €2,935.8 million and \$500.0 million (€341.5 million) under Facilities L, M and N, respectively, were rolled into the New Facilities, including €70.0 million of commitments under Facility L that were rolled into the New Facilities during the third quarter of 2009. Among other matters, the completion of the New Facilities resulted in the extension of a significant portion of the maturities under the UPC Broadband Holding Bank Facility.

Additionally, during September and October 2009, the committed amounts under Facility T were increased by \$325.0 million (€221.9 million) through the addition of a \$25.0 million (€17.1 million) tranche issued at par and a \$300.0 million (€204.9 million) tranche issued at a discount of 4%. During September 2009, the novation process was completed with respect to \$264.5 million (€180.6 million) of the new commitments under Facility T, resulting in net proceeds after discounts of \$254.9 million (€174.1 million) (\$229.2 million (€156.5 million) of which was received as of September 30, 2009 with the remainder received in October 2009). Subsequent to September 30, 2009, the novation process was completed with respect to the remaining \$60.5 million (€41.3 million) under Facility T, resulting in additional net proceeds of \$58.1 million (€39.7 million) after discounts. After completion of the foregoing transactions, total third-party commitments under Facility T were \$876.1 million (€598.3 million).

Fees and third-party costs incurred during the first nine months of 2009 in connection with the partial refinancings of Facilities L, M and N included €24.6 million related to the completion of Facilities Q and R and €15.8 million (€1.5 million of which was incurred during the third quarter of 2009) related to the completion of Facilities S, T and U. In accordance with applicable guidance, (i) the fees and third-party costs related to Facilities Q and R, and a portion of the fees and third-party costs related to Facility T, were capitalized as deferred financing costs and (ii) the fees and third-party costs related to Facilities S and U, and a portion of the fees and third-party costs related to Facility T, were charged to expense and included in losses on debt modifications in our condensed consolidated statements of operations.

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The details of our borrowings under the UPC Broadband Holding Bank Facility as are summarized in the following table:

<b>Facility</b>	<b>Final maturity date</b>	<b>Interest rate</b>	<b>September 30, 2009</b>		
			<b>Facility amount (in borrowing currency) (a)</b>	<b>Unused borrowing capacity (b) in millions</b>	<b>Carrying value (c)</b>
I .....	April 1, 2010	EURIBOR + 2.50%	€ 48.1	€ 48.1	€ —
L .....	July 3, 2012	EURIBOR + 2.25%	€ 159.7	159.7	—
M .....	(d)	EURIBOR + 2.00%	€ 954.2	—	954.2
N .....	(d)	LIBOR + 1.75%	\$ 1,400.0	—	956.2
O .....	July 31, 2013	(e)	(e)	—	49.5
P .....	September 2, 2013	LIBOR + 2.75%	\$ 511.5	—	349.3
Q .....	(f)	EURIBOR + 2.75%	€ 372.0	230.4	141.6
R .....	(f)	EURIBOR + 3.25%	€ 263.3	—	263.3
S .....	(g)	EURIBOR + 3.75%	€ 1,700.0	—	1,700.0
T .....	(g)	LIBOR + 3.50%	\$ 815.6	17.6	533.0
U .....	(h)	EURIBOR + 4.00%	€ 1,235.8	—	1,235.8
<b>Total .....</b>				<b>€ 455.8</b>	<b>€ 6,182.9</b>

- (a) Amounts represent total third-party commitments at September 30, 2009 without giving effect to the impact of discounts. Certain of the originally committed amounts under Facilities I, L, M and N have been novated to LG Europe and, accordingly, such amounts are not included in the table above.
- (b) At September 30, 2009, our availability under the UPC Broadband Holding Bank Facility was limited to €196.7 million. When the September 30, 2009 bank reporting requirements have been completed, we anticipate that our availability under the UPC Broadband Holding Bank Facility will be limited to €317.9 million.
- (c) The Facility T amount includes the impact of discounts.
- (d) The final maturity date for Facilities M and N is the earlier of (i) December 31, 2014 and (ii) October 17, 2013, the date falling 90 days prior to the date on which the UPC Holding Senior Notes due 2014 (see below) fall due, if such Senior Notes have not been repaid, refinanced or redeemed prior to such date.
- (e) The applicable interest payable under Facility O is 2.75% per annum plus the specified percentage rate per annum determined by the Polish Association of Banking Dealers - Forex Poland or the National Bank of Hungary, as appropriate for the relevant period. The principal amount of Facility O is comprised of (i) a HUF 5,962.5 million (€22.1 million) sub-tranche and (ii) a PLN 115.1 million (€27.4 million) sub-tranche.
- (f) The final maturity dates for Facilities Q and R are the earlier of (i) July 31, 2014 and December 31, 2015, respectively, and (ii) October 17, 2013, the date falling 90 days prior to the date on which the UPC Holding Senior Notes due 2014 (see below) fall due, if such Senior Notes have not been repaid, refinanced or redeemed prior to such date.
- (g) The final maturity dates for Facilities S and T are the earlier of (i) December 31, 2016 and (ii) October 17, 2013, the date falling 90 days prior to the date on which the UPC Holding Senior Notes due 2014 (see below) fall due, if, on such date, such Senior Notes are outstanding in an aggregate principal amount of €250.0 million or more.
- (h) The final maturity date for Facility U is the earlier of (i) December 31, 2017 and (ii) October 17, 2013, the date falling 90 days prior to the date on which the UPC Holding Senior Notes due in 2014 (see below) fall due, if, on such date, such Senior Notes are outstanding in an aggregate amount of €250.0 million or more.

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***UPC Holding Senior Notes***

On April 30, 2009, UPC Holding (i) exchanged €115.3 million aggregate principal amount of its existing 7.75% Senior Notes due 2014, together with a cash payment of €4.6 million, and (ii) €69.1 million aggregate principal amount of its 8.625% Senior Notes due 2014, together with a cash payment of €4.1 million, for €184.4 million aggregate principal amount of new 9.75% Senior Notes due April 2018 (the 9.75% Senior Notes). In connection with this exchange transaction, UPC Holding paid the accrued interest on the exchanged Senior Notes and incurred applicable commissions and fees, including fees paid to third parties of €3.8 million that are included in losses on debt modifications in our condensed consolidated statements of operations for the nine months ended September 30, 2009.

On April 30, 2009, UPC Holding also issued €65.6 million principal amount of additional 9.75% Senior Notes at an original issue discount of 16.5%, resulting in cash proceeds before commissions and fees of €54.8 million.

On May 29, 2009, UPC Holding issued €150.0 million principal amount of additional 9.75% Senior Notes at an original issue discount of 10.853% and \$400.0 million (€273.2 million) principal amount of new 9.875% Senior Notes due April 2018 (the 9.875% Senior Notes) at an original issue discount of 7.573%, resulting in cash proceeds before commissions and fees of €133.7 million and \$369.7 million (€252.5 million), respectively. The net proceeds from the issuance of the 9.75% and 9.875% Senior Notes, after deducting applicable commissions and fees, were used for general corporate purposes.

The terms of the 9.75% and 9.875% Senior Notes are substantially identical (other than as to interest, maturity and redemption) to the terms of the existing UPC Holding Senior Notes.

At any time prior to April 15, 2013 in the case of the 9.75% Senior Notes and April 15, 2014 in the case of the 9.875% Senior Notes, UPC Holding may redeem some or all of such Senior Notes by paying a "make-whole" premium, which is the present value of all scheduled interest payments until April 15, 2013 or 2014, as the case may be, using the discount rate (as specified in the applicable indenture) as of the redemption date, plus 50 basis points.

UPC Holding may redeem some or all of the 9.75% and 9.875% Senior Notes at the following redemption prices (expressed as a percentage of the principal amount) plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on April 15 of the years set out below:

<u>Year</u>	<u>Redemption Price</u>	
	<u>9.75% Senior Notes</u>	<u>9.875% Senior Notes</u>
2013.....	104.875%	N.A.
2014.....	102.437%	104.938%
2015.....	100.000%	102.469%
2016 and thereafter .....	100.000%	100.000%

In addition, at any time prior to April 15, 2012, UPC Holding may redeem up to 35% of the 9.75% and 9.875% Senior Notes (at a redemption price of 109.75% and 109.875% of the principal amount, respectively) with the net proceeds from one or more specified equity offerings. UPC Holding may redeem all of the 9.75% and 9.875% Senior Notes at prices equal to their respective principal amounts, plus accrued and unpaid interest, upon the occurrence of certain changes in tax law. If UPC Holding or certain of its subsidiaries sell certain assets or experience specified changes in control, UPC Holding must offer to repurchase the 9.75% and 9.875% Senior Notes at a redemption price of 101%.

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The details of the UPC Holding Senior Notes are summarized in the following table:

		September 30, 2009							
UPC Holding Senior Notes due:	Interest rate	Outstanding principal amount				Estimated fair value	Carrying value (a)		
		Borrowing currency	Euro equivalent						
in millions									
January 2014 .....	7.750%	€	384.6	€	384.6	€	381.8	€	384.6
January 2014 .....	8.625%	€	230.9		230.9		233.8		230.9
November 2016.....	8.000%	€	300.0		300.0		285.7		300.0
April 2018 .....	9.750%	€	400.0		400.0		407.0		373.5
April 2018 .....	9.875%	\$	400.0		273.2		286.1		253.0
				€	1,588.7	€	1,594.4	€	1,542.0

(a) Amounts include the impact of discounts, where applicable.

***Maturities of Third-party Debt and Capital Lease Obligations***

Maturities of our third-party debt and capital lease obligations for the indicated periods are presented below for the named entity and its subsidiaries, unless otherwise noted. Amounts presented represent euro equivalents based on September 30, 2009 exchange rates:

*Third-party debt:*

	<b>UPC Holding (excluding VTR) (a)</b>	<b>VTR (b) in millions</b>	<b>Total</b>
Year ended December 31:			
Remainder of 2009 .....	€ 1.0	€ —	€ 1.0
2010 .....	5.0	3.2	8.2
2011 .....	0.2	3.2	3.4
2012 .....	0.2	3.2	3.4
2013 .....	1,014.6	3.2	1,017.8
2014 .....	2,051.9	301.9	2,353.8
Thereafter .....	<u>4,710.9</u>	<u>—</u>	<u>4,710.9</u>
Total debt maturities .....	<u>7,783.8</u>	<u>314.7</u>	<u>8,098.5</u>
Unamortized discounts .....	<u>(52.4)</u>	<u>—</u>	<u>(52.4)</u>
Total debt .....	<u>€ 7,731.4</u>	<u>€ 314.7</u>	<u>€ 8,046.1</u>
Current portion .....	<u>€ 5.9</u>	<u>€ 3.2</u>	<u>€ 9.1</u>
Noncurrent portion .....	<u>€ 7,725.5</u>	<u>€ 311.5</u>	<u>€ 8,037.0</u>

(a) For purposes of this table, we have assumed that (i) the €800.0 million principal amount of the UPC Holding Senior Notes due 2014 will be repaid, refinanced or redeemed in 2013, (ii) Facilities M, N and Q of the UPC Broadband Holding Bank Facility will be repaid in 2014, (iii) Facility R of the UPC Broadband Holding Bank Facility will be repaid in 2015, (iv) Facilities S and T of the UPC Broadband Holding Bank Facility will be repaid in 2016 and (v) Facility U of the UPC Broadband Holding Bank Facility will be repaid in 2017.

(b) Amounts represent borrowings under the VTR Bank Facility, for which the source of repayment is expected to be the related cash collateral account.

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*Capital lease obligations (in millions):*

Year ended December 31:	
Remainder of 2009 .....	€ 2.7
2010 .....	4.0
2011 .....	2.9
2012 .....	2.5
2013 .....	2.2
2014 .....	2.0
Thereafter .....	20.0
	36.3
Amounts representing interest .....	(12.8)
Present value of net minimum lease payments .....	€ 23.5
Current portion .....	€ 4.8
Noncurrent portion .....	€ 18.7

***Non-cash Refinancing Transactions***

During the nine months ended September 30, 2009 and 2008, we completed certain refinancing transactions that resulted in non-cash borrowings and repayments of debt aggregating €4,094.9 million and €250.0 million, respectively.

**(9) Stock Incentive Awards**

Our stock-based compensation expense includes amounts allocated to our company by LGI and amounts that are based on stock incentive awards related to shares of our subsidiaries. The amounts allocated by LGI to our company represent the stock-based compensation associated with the stock incentive awards held by employees of our subsidiaries, including awards granted to these individuals pursuant to the LGI Performance Plans. Stock-based compensation expense allocated to our company by LGI is reflected as a decrease of parent's deficit. The following table summarizes the U.S. dollar and euro equivalent (convenience translations at the applicable average rate for the period) of our stock-based compensation expense:

	Three months ended September 30,				Nine months ended September 30,			
	2009		2008		2009		2008	
	<u>U.S. \$</u>	<u>Euro equivalent</u>	<u>U.S. \$</u>	<u>Euro equivalent</u>	<u>U.S. \$</u>	<u>Euro equivalent</u>	<u>U.S. \$</u>	<u>Euro equivalent</u>
	in millions							
LGI common stock:								
LGI performance plans.....	\$ 8.8	€ 6.3	\$ 11.4	€ 7.6	\$ 13.4	€ 9.8	\$ 31.9	€ 21.0
Stock options, stock appreciation rights (SARs), restricted shares and restricted share units .....	5.0	3.5	5.7	3.8	16.8	12.3	14.9	9.8
Total LGI common stock.....	13.8	9.8	17.1	11.4	30.2	22.1	46.8	30.8
Other .....	1.5	1.1	(1.5)	(1.0)	1.8	1.3	(3.3)	(2.2)
Total .....	<u>\$ 15.3</u>	<u>€ 10.9</u>	<u>\$ 15.6</u>	<u>€ 10.4</u>	<u>\$ 32.0</u>	<u>€ 23.4</u>	<u>\$ 43.5</u>	<u>€ 28.6</u>
Included in:								
Operating expense .....	\$ 2.7	€ 1.9	\$ 2.7	€ 1.8	\$ 5.5	€ 4.0	\$ 7.4	€ 4.9
SG&A expense.....	12.6	9.0	12.9	8.6	26.5	19.4	36.1	23.7
Total .....	<u>\$ 15.3</u>	<u>€ 10.9</u>	<u>\$ 15.6</u>	<u>€ 10.4</u>	<u>\$ 32.0</u>	<u>€ 23.4</u>	<u>\$ 43.5</u>	<u>€ 28.6</u>

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The following table provides certain information related to stock-based compensation not yet recognized for stock incentive awards related to LGI common stock as of September 30, 2009:

	<u>LGI Series A and Series C common stock (a)</u>		<u>LGI performance plans (b)</u>	
	<u>U.S. \$</u>	<u>Euro equivalent (c)</u>	<u>U.S. \$</u>	<u>Euro equivalent (c)</u>
Total compensation expense not yet recognized (in millions) .....	<u>\$ 45.2</u>	<u>€ 30.9</u>	<u>\$ 19.7</u>	<u>€ 13.5</u>
Weighted average period remaining for expense recognition (in years) .....	<u>2.7</u>		<u>2.0</u>	

- (a) Amounts relate to (i) the Liberty Global, Inc. 2005 Incentive Plan (as amended and restated October 31, 2006) (the LGI Incentive Plan) and (ii) certain UGC incentive plans. The LGI Incentive Plan had 25,603,692 shares available for grant as of September 30, 2009 before considering any shares that might be issued to satisfy the 2010 and 2011 payments under the LGI performance-based incentive plans. These shares may be awarded at or above fair value in any series of stock, except that no more than 23,372,168 shares may be awarded in LGI Series B common stock. Any shares issued in satisfaction of our obligations under the LGI performance-based incentive plans will reduce the shares available for grant under the LGI Incentive Plan. No new grants will be made under the UGC incentive plans.
- (b) Amounts relate to the LGI performance-based incentive plans. Compensation expense under these performance-based incentive plans is reported as stock-based compensation in our condensed consolidated statements of operations, notwithstanding the fact that the compensation committee of LGI's board of directors could elect to cash settle any portion of the vested awards under these performance-based incentive plans.
- (c) The U.S. dollar amounts have been translated into euros at the September 30, 2009 spot rate.

The following table summarizes certain information related to the incentive awards granted and exercised pursuant to the applicable LGI and UGC incentive plans:

<u>LGI common stock:</u>	<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Assumptions used to estimate fair value of awards granted:		
Risk-free interest rate .....	1.82 – 2.97%	2.85 – 3.78%
Expected life .....	3.2 – 4.2 years	4.5 years
Expected volatility .....	47.50 – 54.50%	24.00 – 25.10%
Expected dividend yield .....	none	none
Weighted average grant-date fair value per share of awards granted:		
SARs .....	\$ 6.17	\$ 9.84
Restricted stock .....	\$ 13.10	\$ 35.44
Total intrinsic value of awards exercised (in millions):		
Options .....	\$ 0.1	\$ 2.2
SARs .....	\$ 3.1	\$ 7.6
Cash received from exercise of options (in millions) .....	\$ 0.7	\$ 3.7
Income tax benefit related to stock-based compensation (in millions) .....	\$ 0.3	\$ 0.4

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***Stock Award Activity – LGI Common Stock***

The following tables summarize the LGI stock award activity during the nine months ended September 30, 2009 under the LGI and UGC incentive plans held by employees of our subsidiaries:

<b><u>Options — LGI Series A common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average exercise price</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>	<b><u>Aggregate intrinsic value in millions</u></b>
Outstanding at January 1, 2009 .....	670,858	\$ 24.46		
Granted .....	—	\$ —		
Expired or canceled .....	(76,295)	\$ 36.34		
Forfeited .....	(71,311)	\$ 25.54		
Exercised .....	(12,348)	\$ 18.77		
Outstanding at September 30, 2009 .....	<u>510,904</u>	<u>\$ 22.67</u>	<u>2.91</u>	<u>\$ 0.8</u>
Exercisable at September 30, 2009 .....	<u>481,342</u>	<u>\$ 22.84</u>	<u>2.84</u>	<u>\$ 0.7</u>

<b><u>Options — LGI Series C common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average exercise price</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>	<b><u>Aggregate intrinsic value in millions</u></b>
Outstanding at January 1, 2009 .....	710,368	\$ 22.89		
Granted .....	—	\$ —		
Expired or canceled .....	(76,295)	\$ 33.74		
Forfeited .....	(71,311)	\$ 24.11		
Exercised .....	(23,598)	\$ 20.23		
Outstanding at September 30, 2009 .....	<u>539,164</u>	<u>\$ 21.31</u>	<u>3.08</u>	<u>\$ 1.1</u>
Exercisable at September 30, 2009 .....	<u>509,602</u>	<u>\$ 21.43</u>	<u>3.02</u>	<u>\$ 1.0</u>

<b><u>Restricted stock and restricted stock units — LGI Series A common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average grant-date fair value per share</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>
Outstanding at January 1, 2009 .....	366,534	\$ 32.51	
Granted .....	1,023,066	\$ 13.15	
Expired or canceled .....	—	\$ —	
Forfeited .....	(44,881)	\$ 28.20	
Released from restrictions .....	(856,422)	\$ 14.25	
Outstanding at September 30, 2009 .....	<u>488,297</u>	<u>\$ 24.38</u>	<u>2.82</u>

<b><u>Restricted stock and restricted stock units — LGI Series C common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average grant-date fair value per share</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>
Outstanding at January 1, 2009 .....	366,511	\$ 30.60	
Granted .....	993,606	\$ 13.04	
Expired or canceled .....	—	\$ —	
Forfeited .....	(44,665)	\$ 26.76	
Released from restrictions .....	(827,164)	\$ 13.98	
Outstanding at September 30, 2009 .....	<u>488,288</u>	<u>\$ 23.37</u>	<u>2.82</u>

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<b><u>SARs — LGI Series A common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average base price</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>	<b><u>Aggregate intrinsic value in millions</u></b>
Outstanding at January 1, 2009 .....	2,509,010	\$ 26.77		
Granted .....	1,239,543	\$ 15.81		
Expired or canceled .....	(1,028,355)	\$ 36.87		
Forfeited .....	(93,614)	\$ 29.05		
Exercised .....	(114,104)	\$ 12.40		
Outstanding at September 30, 2009 .....	<u>2,512,480</u>	<u>\$ 17.79</u>	<u>5.02</u>	<u>\$ 13.3</u>
Exercisable at September 30, 2009 .....	<u>1,149,855</u>	<u>\$ 19.18</u>	<u>3.47</u>	<u>\$ 4.8</u>

<b><u>SARs — LGI Series C common stock:</u></b>	<b><u>Number of shares</u></b>	<b><u>Weighted average base price</u></b>	<b><u>Weighted average remaining contractual term in years</u></b>	<b><u>Aggregate intrinsic value in millions</u></b>
Outstanding at January 1, 2009 .....	2,542,572	\$ 25.09		
Granted .....	1,239,543	\$ 15.62		
Expired or canceled .....	(1,028,355)	\$ 34.45		
Forfeited .....	(93,614)	\$ 27.49		
Exercised .....	(194,012)	\$ 11.17		
Outstanding at September 30, 2009 .....	<u>2,466,134</u>	<u>\$ 17.43</u>	<u>5.10</u>	<u>\$ 13.1</u>
Exercisable at September 30, 2009 .....	<u>1,103,500</u>	<u>\$ 18.76</u>	<u>3.58</u>	<u>\$ 4.4</u>

At September 30, 2009, total SARs outstanding included 36,654 LGI Series A common stock capped SARs and 36,654 LGI Series C common stock capped SARs, all of which were exercisable. The holder of an LGI Series A common stock capped SAR will receive the difference between \$6.84 and the lesser of \$10.90 or the market price of LGI Series A common stock on the date of exercise. The holder of an LGI Series C common stock capped SAR will receive the difference between \$6.48 and the lesser of \$10.31 or the market price of LGI Series C common stock on the date of exercise.

***Exchange Offer for LGI Options and SARs***

On May 13, 2009, LGI commenced an option and SAR exchange offer for certain outstanding LGI equity awards (Eligible Awards) granted under the LGI Incentive Plan. Under the terms of the exchange offer, certain LGI employees, other than those of LGI's senior executives who hold Eligible Awards, were given the opportunity to exchange Eligible Awards for the grant of new SARs on a 2-for-1 basis (exchange two existing options or SARs for one new SAR). Pursuant to the exchange offer, which was completed on June 16, 2009, eligible participants tendered, and LGI accepted for cancellation and exchange, Eligible Awards consisting of options and SARs covering an aggregate of 1,789,210 shares of LGI Series A common stock and 1,787,810 shares of LGI Series C common stock (including 1,075,278 shares of both LGI Series A and Series C common stock cancelled and exchanged by employees of our subsidiaries) from 170 participants (including 68 participants from our subsidiaries), representing approximately 99% of the total Series A and Series C shares (100% of the total shares held by the employees of our subsidiaries) underlying the options and SARs eligible for exchange. On June 16, 2009, after the cancellation of the tendered Eligible Awards, LGI granted new SARs to the exchange offer participants in respect of 894,627 shares of LGI Series A common stock and 893,927 shares of LGI Series C common stock (including 537,639 shares of both LGI Series A and Series C common stock granted to employees of our subsidiaries), as applicable. The new SARs have a base price equal to \$14.73 per share and \$14.50 per share of LGI Series A and Series C common stock, respectively, which represents the closing price of such stock on June 16, 2009. The new SARs (i) vest 12.5% on November 1, 2009 and then vest at a rate of 6.25% each quarter thereafter and (ii) expire on May 1, 2016. This exchange did not have a significant impact on our stock-based compensation expense for the nine months ended September 30, 2009.



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***LGI Performance Plans***

On February 18, 2009, the compensation committee of LGI's board of directors determined the method of payment for the March 31, 2009 and September 30, 2009 installments of the awards that had been earned by participants in LGI's senior executive performance incentive plan and management incentive plan (the LGI Performance Plans). These installments represent the first two of six equal semi-annual installments that began on March 31, 2009. In accordance with the compensation committee's determination, LGI (i) paid cash aggregating \$56.4 million (€38.5 million) (including \$23.4 million (€16.0 million) paid to employees of our subsidiaries) and granted on February 18, 2009 9,464 restricted share units with respect to LGI Series A common stock and 9,094 restricted share units with respect to LGI Series C common stock to settle the first installment of the awards earned under the LGI Performance Plans and (ii) granted restricted share units on February 18, 2009 with respect to 2,016,351 shares of LGI Series A common stock and 1,937,265 shares of LGI Series C common stock (including 750,970 and 721,510, respectively, granted to employees of our subsidiaries) to settle the second installment of the awards earned under the LGI Performance Plans. The restricted share units granted in partial satisfaction of the first installment of the awards vested on March 31, 2009, and the restricted share units granted in satisfaction of the second installment of the awards vested on September 30, 2009. For purposes of determining the number of restricted share units to be granted, the compensation committee assigned a value of \$13.50 to each restricted share unit, which represented a premium of approximately 13.5% to the closing price of LGI Series A common stock on February 18, 2009. As required by the terms of the LGI Performance Plans, the restricted share units were allocated between LGI Series A and Series C common stock in the same relative proportions as the then outstanding LGI Series A and Series C common stock (51%/49%). The compensation committee has not determined the method of payment of the remaining four installments of the earned awards. The decision by the compensation committee to settle the second installment of each earned award with restricted share units represents a modification that resulted in the reclassification of this portion of the earned awards from a liability to equity. The €1.4 million difference between the February 18, 2009 grant date market value of the restricted share units issued to employees of our subsidiaries and the value assigned to the restricted share units by the compensation committee is reflected as a reduction of our stock-based compensation expense for the nine months ended September 30, 2009. Our stock-based compensation expense for the nine months ended September 30, 2009 also includes a reduction of €8.2 million related to the first quarter 2009 forfeiture of certain awards under the LGI Performance Plans.

**(10) Related-Party Transactions**

Our related-party transactions consist of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
Revenue.....	€ 2.5	€ 0.8	€ 6.9	€ 10.0
Operating expenses .....	(15.7)	(14.7)	(46.3)	(47.4)
SG&A expenses .....	(0.7)	(0.9)	(1.9)	(3.6)
Allocated stock-based compensation expense .....	(9.8)	(11.4)	(22.1)	(30.8)
Fees and allocations, net .....	4.5	7.4	15.1	15.5
Included in operating income.....	(19.2)	(18.8)	(48.3)	(56.3)
Interest expense.....	(157.4)	(153.2)	(475.6)	(469.8)
Included in net loss.....	€ (176.6)	€ (172.0)	€ (523.9)	€ (526.1)

*Revenue.* Amounts consist primarily of construction and programming services provided to our equity method affiliates and, to a lesser extent programming services provided to Chellomedia.

*Operating expenses.* Amounts consist primarily of programming and digital interactive services provided by Chellomedia and, to a lesser extent, programming services provided by Pramer S.C.A., an indirect subsidiary of LGI, in the aggregate amounts of €13.4 million and €12.7 million during the three months ended September 30, 2009 and 2008, respectively, and €39.1 million and €40.2 million during the nine months ended September 30, 2009 and 2008, respectively. In addition, operating expenses include costs for programming costs and interconnect fees charged by certain of LGI's equity method affiliates of €2.3 million and €2.0 million during the

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three months ended September 30, 2009 and 2008, respectively, and €7.2 million during each of the nine month periods ended September 30, 2009 and 2008.

*SG&A expenses.* Amounts consist primarily of marketing and other administrative charges between UPC Holding, Chellomedia and Priority Telecom N.V.

*Allocated stock-based compensation expense.* As further described in note 9, LGI allocates stock-based compensation expense to our company.

*Fees and allocations, net.* UPC Holding recorded net credits primarily related to cost allocations between UPC Holding and LGI for services performed and costs incurred on behalf of the other party of €3.6 million and €6.5 million during the three months ended September 30, 2009 and 2008, respectively, and €11.6 million and €14.5 million during the nine months ended September 30, 2009 and 2008, respectively. The amounts allocated in connection with services performed include salary, stock-based compensation and other personnel and general and administrative costs. These allocations (i) are based on estimated costs that are reviewed and revised on an annual basis, with any differences between the revised and estimated amounts recorded in the period identified, generally the first quarter of the following year, and (ii) are periodically settled in cash or reflected as a reduction of our shareholder loan with LGE Financing. UPC Holding also recorded net credits for services provided to and by Chellomedia for programming services, and services provided to and by Liberty Global NV of €0.9 million during each of the three month periods ended September 30, 2009 and 2008, and €3.5 million and €1.0 million during the nine months ended September 30, 2009 and 2008, respectively.

*Interest expense.* Amount includes interest accrued on UPC Holding's shareholder loan. The interest expense is not paid in cash, but accrued in other long-term liabilities during the year and then added to the shareholder loan balance at the end of the year. See note 8.

Although we believe that the intercompany fees and allocations described above are reasonable, no assurance can be given that the costs and expenses reflected in our condensed consolidated statements of operations are reflective of the costs that we would incur on a stand-alone basis.

The following table provides details of the related-party balances of UPC Holding:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>in millions</b>	
Receivables .....	€ 5.0	€ 4.1
Accounts payable .....	€ 15.7	€ 17.5
Accrued liabilities.....	2.4	0.8
Other long-term liabilities.....	475.6	—
Shareholder loan .....	8,030.9	8,480.8
Total liabilities .....	<u>€ 8,524.6</u>	<u>€ 8,499.1</u>

During the nine months ended September 30, 2009, (i) LGI charged €4.4 million to our company in connection with the exercise of LGI SARs and stock options and the vesting of LGI restricted stock awards held by employees of our subsidiaries and (ii) we paid €47.4 million to LGI as a reimbursement of the amounts paid by LGI to employees of our subsidiaries pursuant to the LGI Performance Plans. These charges and reimbursements are reflected as capital charges and distributions in connection with LGI stock incentive awards in our condensed consolidated statement of owners' deficit.

## **(11) Commitments and Contingencies**

### ***Commitments***

In the ordinary course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancellable operating leases, programming contracts, purchases of

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customer premise equipment and other items. We expect that in the ordinary course of business, operating leases that expire generally will be renewed or replaced by similar leases.

***Contingent Obligations***

In September 2009, VTR Móvil SA (VTR Móvil), a wholly-owned subsidiary of VTR, was officially notified by the Undersecretary of Telecommunications of Chile's Ministry of Transport and Telecommunications that VTR Móvil had been awarded one of three "3G" mobile licenses recently auctioned by the Chilean government pursuant to a public bidding process. The term "3G" refers to a set of mobile technologies that allow mobile telephony providers to offer, among other things, higher-speed internet access, data and video services. The purchase price for the 3G license, which is expected to be paid in November 2009, is CLP 1,660.1 million (€2.1 million). In order to guarantee its compliance with the terms of the 3G license, VTR Móvil was required to post a performance bond in the amount of CLP 35.4 billion (€43.9 million). This performance bond, which is fully guaranteed by VTR, was posted in October 2009.

***Guarantees and Other Credit Enhancements***

In the ordinary course of business, we have provided indemnifications to purchasers of certain of our assets, our lenders, our vendors and certain other parties. In addition, we have provided performance and/or financial guarantees to local municipalities, our customers and vendors. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.

***Legal and Regulatory Proceedings and Other Contingencies***

*The Netherlands Regulatory Developments* — During 2008, the Dutch national regulatory authority (OPTA) conducted a second round analysis of certain markets to determine if any operator or service provider has "Significant Market Power" within the meaning of certain directives originally promulgated by the European Union (EU) in 2003. With respect to television services, OPTA issued a draft decision on August 5, 2008, again finding our subsidiary, UPC Nederland BV (UPC NL), as well as other cable operators, to have Significant Market Power in the market for wholesale broadcasting transmission services and imposing new obligations. Following a national consultation procedure, OPTA issued a revised decision and submitted it to the EU Commission on January 9, 2009. On February 9, 2009, the EU Commission informed OPTA of its approval of the draft decision. The decision became effective on March 17, 2009. The new market analysis decision imposes on the four largest cable operators in the Netherlands a number of access obligations in respect of television services. The two largest cable operators, including UPC NL, have a number of additional access obligations.

The access obligations consist of (i) access to capacity for the transmission of the television signal (both analog and digital), (ii) resale of the analog television signal and, in conjunction with any such resale, the provision of customer connection, and (iii) access to UPC NL's digital conditional access system, including access to its operational supporting systems and co-location. OPTA has stated that any operator with its own infrastructure, such as Royal KPN NV, the incumbent telecommunications operator in the Netherlands, will not be allowed to resell the analog television signal or avail itself of access to UPC NL's digital platform.

The resale obligation will enable third parties to take over the customer relationship as far as the analog television signal is concerned. The decision includes the possibility for resale of an analog package that is not identical to the analog packages offered by UPC NL. Potential resellers will need to negotiate the relevant copyrights directly with program providers in order to resell the analog television signals. In case of non-identical resale, the decision imposes a number of preconditions, including that the reseller must bear the costs of filtering and that OPTA will determine the reasonableness of such request on a case by case basis.

In respect of transmission of the analog television signal, a number of preconditions were established to ensure that such transmission will not cause unreasonable use of scarce capacity. A request for transmission of analog signals that are not included in UPC NL's analog television package, as well as parallel transmission of analog signals that are already part of the analog package, will in principle be deemed unreasonable.

Regarding digital, the new market analysis decision requires UPC NL to enable providers of digital television signals to supply their digital signals using their own or UPC NL's digital conditional access system. This

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allows the third parties to have their own customer relationship for those digital television signals and, to bundle their offer with the resale of the analog television signal.

Pricing of the wholesale offer for analog and digital transmission capacity will be at cost-oriented prices. Pricing of the wholesale offer for resale of the analog package, including access to UPC NL's transmission platform for purposes of resale, will be based on a discount to UPC NL's retail rates, at a level to be determined by OPTA and, if no retail offer of UPC NL is available, on cost-oriented basis. Both access obligations come with the obligation to provide access to the relevant network elements and facilities, including set-top boxes, co-location, software systems and operational supporting systems, at cost-oriented prices if no relevant retail tariff is available to define the retail minus tariff.

UPC NL will also be required to make its tariffs publicly available on a rate card. Furthermore, UPC NL will not be allowed to discriminate between third parties and its own retail business in making these services available. This includes for example a prohibition on offering loyalty discounts to its own customers.

We believe that the proposed measures are unnecessary and disproportionate and we filed an appeal against the decision on April 15, 2009. Pending the outcome of this appeal, UPC NL will be required to comply with the decision.

*Chilean Antitrust Matter* – On December 12, 2006, Liberty Media Corporation (Liberty Media) announced publicly that it had agreed to acquire an approximate 39% interest in The DirecTV Group, Inc. (DirecTV). On August 1, 2007, VTR received formal written notice from the Chilean Federal Economic Prosecutor (FNE) that Liberty Media's acquisition of the DirecTV interest would violate one of the conditions imposed by the Chilean Antitrust Court on VTR's combination with Metrópolis prohibiting VTR and its control group from participating, directly or indirectly through related persons, in Chilean satellite or microwave television businesses. On March 10, 2008, following the closing of Liberty Media's investment in DirecTV, the FNE commenced an action before the Chilean Antitrust Court against John C. Malone who is chairman of LGI's board of directors and of Liberty Media's board of directors. In this action, the FNE alleges that Mr. Malone is a controller of VTR and either controls or indirectly participates in DirecTV's satellite operations in Chile, thus violating the condition. The FNE requests the Antitrust Court to impose a fine on Mr. Malone and order him to effect the transfer of the shares, interests or other assets that are necessary to restore the independence, in ownership and administration, of VTR and DirecTV. We currently are unable to predict the outcome of this matter or its impact on VTR.

*Other Regulatory Issues* — Video distribution, broadband internet, telephony and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in European markets is harmonized under the regulatory structure of the EU. Adverse regulatory developments could subject our businesses to a number of risks. Regulation could limit growth, revenue and the number and types of services offered and could lead to increased operating costs and capital expenditures. In addition, regulation may restrict our operations and subject them to further competitive pressure, including pricing restrictions, interconnect and other access obligations, and restrictions or controls on content, including content provided by third parties. Failure to comply with current or future regulation could expose our businesses to various penalties.

*Other* – In addition to the foregoing items, we have contingent liabilities related to (i) legal proceedings, (ii) wage, property, sales and other tax issues, (iii) disputes over interconnection fees and (iv) other matters arising in the ordinary course of business. We expect that the amounts, if any, which may be required to satisfy these contingencies will not be material in relation to our financial position or results of operations.

## **(12) Segment Reporting**

We own a variety of international subsidiaries and investments that provide broadband communications services, and to a lesser extent, video programming services. We identify our reportable segments as those consolidated subsidiaries that represent 10% or more of our revenue, operating cash flow (as defined below) or total assets. In certain cases, we may elect to include an operating segment in our segment disclosure that does not meet the above-described criteria for a reportable segment. We evaluate performance and make decisions about allocating resources to our operating segments based on financial measures such as revenue and operating cash flow. In addition, we review non-financial measures such as subscriber growth, as appropriate.

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Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance. Operating cash flow is also a key factor that is used by our internal decision makers to (i) determine how to allocate resources to segments and (ii) evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding stock-based compensation, related-party fees and allocations, depreciation and amortization, and impairment, restructuring and other operating charges or credits). Other operating charges or credits include gains and losses on the disposition of long-lived assets and due diligence, legal, advisory and other third-party costs directly related to our efforts to acquire controlling interests in entities. Our internal decision makers believe operating cash flow is a meaningful measure and is superior to other available U.S. GAAP measures because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to (i) readily view operating trends, (ii) perform analytical comparisons and benchmarking between segments and (iii) identify strategies to improve operating performance in the different countries in which we operate. We believe our operating cash flow measure is useful to investors because it is one of the bases for comparing our performance with the performance of other companies in the same or similar industries, although our measure may not be directly comparable to similar measures used by other public companies. Operating cash flow should be viewed as a measure of operating performance that is a supplement to, and not a substitute for, operating income, net earnings (loss), cash flow from operating activities and other U.S. GAAP measures of income or cash flows. A reconciliation of total segment operating cash flow to our loss from continuing operations before income taxes is presented below.

During the first quarter of 2009, we changed our reporting such that we no longer include video-on-demand costs within the central and corporate operations category of the UPC Broadband Division. Instead, we present these costs within the individual operating segments of the UPC Broadband Division. Segment information for all periods presented has been recast to reflect the reclassification of these costs. Additionally, our reportable segments have been reclassified for all periods to present UPC Slovenia as a discontinued operation. Previously, UPC Slovenia was included in our Other Central and Eastern Europe segment. We present only the reportable segments of our continuing operations in the tables below.

We have identified the following consolidated operating segments as our reportable segments:

- UPC Broadband Division:
  - The Netherlands
  - Switzerland
  - Austria
  - Ireland
  - Hungary
  - Other Central and Eastern Europe
- VTR (Chile)

All of the reportable segments set forth above derive their revenue primarily from broadband communications services, including video, voice and broadband internet services. Certain segments also provide Competitive Local Exchange Carrier (CLEC) and other business-to-business (B2B) services. At September 30, 2009, our operating segments in the UPC Broadband Division provided services in nine European countries. Our Other Central and Eastern Europe segment includes our operating segments in the Czech Republic, Poland, Romania and Slovakia. VTR provides broadband communications services in Chile. The UPC Broadband Division's central and corporate operations category includes billing systems, network operations, technology, marketing, facilities, finance, legal and other administrative costs.

***Performance Measures of Our Reportable Segments***

The amounts presented below represent 100% of each of our reportable segment's revenue and operating cash flow. As we have the ability to control VTR, U.S. GAAP requires that we consolidate 100% of the revenue and expenses of these entities in our condensed consolidated statements of operations despite the fact that third parties own significant interests in these entities. The noncontrolling owner's interest in the operating results of VTR is reflected in net earnings attributable to noncontrolling interests in our condensed consolidated statements

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of operations. When reviewing and analyzing our operating results, it is important to note that a third-party entity owns a significant interest in VTR.

	<b>Revenue</b>			
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>in millions</b>			
UPC Broadband Division:				
The Netherlands .....	€ 201.6	€ 197.9	€ 609.7	€ 597.4
Switzerland.....	181.0	170.3	545.9	510.3
Austria .....	86.2	90.5	260.8	275.8
Ireland .....	61.6	60.6	184.6	180.7
Total Western Europe .....	530.4	519.3	1,601.0	1,564.2
Hungary .....	59.2	73.2	176.0	209.3
Other Central and Eastern Europe .....	144.8	156.7	418.2	454.7
Total Central and Eastern Europe .....	204.0	229.9	594.2	664.0
Central and corporate operations .....	1.4	1.7	3.9	4.7
Total UPC Broadband Division .....	735.8	750.9	2,199.1	2,232.9
VTR (Chile) .....	125.7	119.8	371.9	368.8
Total UPC Holding.....	€ 861.5	€ 870.7	€ 2,571.0	€ 2,601.7

	<b>Operating cash flow</b>			
	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>in millions</b>			
UPC Broadband Division:				
The Netherlands .....	€ 122.2	€ 115.4	€ 356.1	€ 334.0
Switzerland.....	103.2	91.6	305.1	267.7
Austria .....	44.9	47.0	132.7	141.3
Ireland .....	24.4	23.6	73.8	69.0
Total Western Europe .....	294.7	277.6	867.7	812.0
Hungary .....	29.2	38.4	87.9	107.7
Other Central and Eastern Europe .....	78.4	84.4	216.0	236.8
Total Central and Eastern Europe .....	107.6	122.8	303.9	344.5
Central and corporate operations .....	(33.9)	(35.3)	(104.9)	(110.6)
Total UPC Broadband Division .....	368.4	365.1	1,066.7	1,045.9
VTR (Chile) .....	52.2	48.0	150.7	150.9
Total UPC Holding.....	€ 420.6	€ 413.1	€ 1,217.4	€ 1,196.8

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
Total segment operating cash flow .....	€ 420.6	€ 413.1	€ 1,217.4	€ 1,196.8
Stock-based compensation expense .....	(10.9)	(10.4)	(23.4)	(28.6)
Related-party fees and allocations, net .....	4.5	7.4	15.1	15.5
Depreciation and amortization.....	(265.6)	(269.2)	(790.9)	(810.7)
Impairment, restructuring and other operating charges (credits), net .....	0.4	(1.0)	(89.1)	(5.9)
Operating income .....	149.0	139.9	329.1	367.1
Interest expense:				
Related party .....	(157.4)	(153.2)	(475.6)	(469.8)
Third party .....	(101.6)	(116.1)	(282.5)	(337.1)
Interest income .....	3.8	5.0	13.7	17.1
Realized and unrealized losses on derivative instruments, net ...	(187.5)	(72.5)	(474.9)	(117.5)
Foreign currency transaction gains (losses), net .....	115.7	(179.5)	101.0	71.2
Unrealized gains due to changes in fair values of certain investments, net .....	1.5	1.4	3.6	1.8
Losses on debt modifications .....	(0.7)	—	(18.0)	—
Other income (expense), net.....	2.7	(0.3)	1.5	(0.4)
Loss from continuing operations before income taxes.....	€ (174.5)	€ (375.3)	€ (802.1)	€ (467.6)

***Revenue by Major Category***

Our revenue by major category is set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
Subscription revenue (a):				
Video.....	€ 431.8	€ 442.1	€ 1,292.8	€ 1,320.8
Broadband internet .....	215.3	212.7	638.2	626.6
Telephony .....	119.4	121.6	358.5	364.5
Total subscription revenue .....	766.5	776.4	2,289.5	2,311.9
Other revenue (b) .....	95.0	94.3	281.5	289.8
Total UPC Holding .....	€ 861.5	€ 870.7	€ 2,571.0	€ 2,601.7

- (a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the stand-alone price for each individual service. However, due to regulatory and other constraints, the allocation of bundling discounts may vary somewhat among our broadband communications operating segments.
- (b) Other revenue includes non-subscription revenue (including B2B and installation fee revenue).

**UPC HOLDING B.V.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - continued**  
**September 30, 2009**  
**(unaudited)**

***Geographic Segments***

The revenue of our geographic segments is set forth below:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
Europe:				
UPC Broadband Division:				
The Netherlands .....	€ 201.6	€ 197.9	€ 609.7	€ 597.4
Switzerland .....	181.0	170.3	545.9	510.3
Austria .....	86.2	90.5	260.8	275.8
Ireland .....	61.6	60.6	184.6	180.7
Hungary .....	59.2	73.2	176.0	209.3
Poland .....	51.8	57.2	145.4	160.0
Czech Republic .....	48.5	50.2	140.5	145.2
Romania .....	31.1	35.9	92.1	111.3
Slovakia .....	13.4	13.4	40.2	38.2
Central and corporate operations (a) .....	<u>1.4</u>	<u>1.7</u>	<u>3.9</u>	<u>4.7</u>
Total Europe .....	735.8	750.9	2,199.1	2,232.9
Chile .....	<u>125.7</u>	<u>119.8</u>	<u>371.9</u>	<u>368.8</u>
Total UPC Holding .....	<u>€ 861.5</u>	<u>€ 870.7</u>	<u>€ 2,571.0</u>	<u>€ 2,601.7</u>

(a) Our central and corporate operations are located primarily in the Netherlands.

**(13) Subsequent Events**

In December 2009, two of our subsidiaries that perform certain corporate and administrative functions were transferred outside of UPC Holding to another indirect subsidiary of LGI. As a common control transfer, this transaction will be reflected at carryover basis and will be given retroactive effect for all periods presented in our consolidated financial statements as of and for the year ended December 31, 2009. The primary financial statement impacts of this transaction will be to reduce our SG&A expenses (including stock-based compensation) and to reflect partially offsetting adjustments to our related party fees and allocations, net. The adjustments to our related party fees and allocations, net, are attributable to the fact that (i) most of the stock-based compensation expense of the transferred entities is allocated to our subsidiaries and (ii) certain other SG&A costs of the transferred entities are allocated to certain of our subsidiaries and certain of LGI's subsidiaries outside of UPC Holding. If this common control transfer had been given effect as of January 1, 2008, our SG&A expenses (including stock-based compensation) and related party fees and allocations, net, would have been reported as follows for the indicated periods:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
SG&A expenses (including stock-based compensation expense):				
Stock-based compensation included in SG&A expenses .....	€ 5.1	€ 5.4	€ 9.1	€ 15.6
Other SG&A expenses .....	<u>127.6</u>	<u>137.8</u>	<u>402.8</u>	<u>433.4</u>
Total .....	<u>€ 132.7</u>	<u>€ 143.2</u>	<u>€ 411.9</u>	<u>€ 449.0</u>
Related party fees and allocations, net .....	<u>€ 7.1</u>	<u>€ 2.4</u>	<u>€ 22.8</u>	<u>€ 22.5</u>



## ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following discussion and analysis, which should be read in conjunction with the discussion and analysis included in our 2008 annual financial statements, is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and is organized as follows:

- *Forward-Looking Statements.* This section provides a description of certain of the factors that could cause actual results or events to differ materially from anticipated results or events.
- *Overview.* This section provides a general description of our business and recent events.
- *Material Changes in Results of Operations.* This section provides an analysis of our results of operations for the three and nine months ended September 30, 2009 and 2008.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed consolidated cash flow statements and our off balance sheet arrangements.

The capitalized terms used below have been defined in the notes to our condensed consolidated financial statements. In the following text, the terms, "we," "our," "our company" and "us" may refer, as the context requires, to UPC Holding or collectively to UPC Holding and its subsidiaries.

Unless otherwise indicated, convenience translations into euros are calculated as of September 30, 2009.

### **Forward-Looking Statements**

Certain statements in this quarterly report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. To the extent that statements in this quarterly report are not recitations of historical fact, such statements constitute forward-looking statements, which, by definition, involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In particular, statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations* contain forward-looking statements, including statements regarding business, product and finance strategies, our capital expenditure priorities, subscriber growth and retention rates, competitive and economic factors, the maturity of our markets, anticipated cost increases, liquidity, credit risks, foreign currency risks and target leverage levels. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. In addition to the risk factors described in our 2008 annual financial statements, the following are some but not all of the factors that could cause actual results or events to differ materially from anticipated results or events:

- economic and business conditions and industry trends in the countries in which we, and the entities in which we have interests, operate;
- the competitive environment in the broadband communications and programming industries in the countries in which we, and the entities in which we have interests, operate;
- competitor responses to our products and services, and the products and services of the entities in which we have interests;
- fluctuations in currency exchange rates and interest rates;
- consumer disposable income and spending levels, including the availability and amount of individual consumer debt;
- changes in consumer television viewing preferences and habits;
- consumer acceptance of existing service offerings, including our digital video, voice and broadband internet services;
- consumer acceptance of new technology, programming alternatives and broadband services that we may offer;

- our ability to manage rapid technological changes;
- our ability to increase the number of subscriptions to our digital video, voice and broadband internet services and our average revenue per household;
- our ability to maintain or increase rates to our subscribers or to pass through increased costs to our subscribers;
- the impact of our future financial performance, or market conditions generally, on the availability, terms and deployment of capital;
- the outcome of any pending or threatened litigation;
- continued consolidation of the foreign broadband distribution industry;
- changes in, or failure or inability to comply with, government regulations in the countries in which we, and the entities in which we have interests, operate and adverse outcomes from regulatory proceedings;
- our ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions, as well as our ability to satisfy conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- government intervention that opens our broadband distribution networks to competitors;
- our ability to successfully negotiate rate increases with local authorities;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in countries in which we, or the entities in which we have interests operate;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- capital spending for the acquisition and/or development of telecommunications networks and services;
- our ability to successfully integrate and recognize anticipated efficiencies from the businesses we acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- the ability of suppliers and vendors to timely deliver products, equipment, software or services;
- the availability of attractive programming for our digital video services at reasonable costs;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint ventures; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, natural disasters, pandemics or other similar events.

The broadband communications services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this quarterly report are subject to a significant degree of risk. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this quarterly report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

## Overview

We are an indirect wholly-owned subsidiary of LGI and an international provider of video, voice and broadband internet services with consolidated broadband communications and/or DTH satellite operations at September 30, 2009 in nine European countries and in Chile. Our European broadband communications operations are collectively

referred to as the UPC Broadband Division. Our broadband communications operations in Chile are provided through VTR.

We completed a number of minor acquisitions in Europe since the beginning of 2008 that impact the comparability of our 2009 and 2008 results.

As further discussed in note 3 to our condensed consolidated financial statements, our condensed consolidated financial statements have been reclassified to present UPC Slovenia as a discontinued operation. Accordingly, in the following discussion and analysis, the operating statistics, results of operations and cash flows that we present and discuss are those of our continuing operations unless otherwise indicated.

We focus on achieving organic revenue and customer growth in our broadband communications operations by developing and marketing bundled entertainment and information and communications services, and extending and upgrading the quality of our networks where appropriate. As we use the term, organic growth excludes foreign currency translation effects (FX) and the estimated impact of acquisitions. While we seek to obtain new customers, we also seek to maximize the average revenue we receive from each household by increasing the penetration of our digital cable, broadband internet and telephony services with existing customers through product bundling and upselling, or by migrating analog cable customers to digital cable services that include various incremental service offerings, such as video-on-demand, digital video recorders and high definition programming. We plan to continue to employ this strategy to achieve organic revenue and customer growth.

At September 30, 2009, we owned and operated networks that passed 16,486,400 homes and served 15,848,500 revenue generating units (RGUs), consisting of 9,440,600 video subscribers, 3,822,100 broadband internet subscribers and 2,585,800 telephony subscribers.

Including the effects of acquisitions, our continuing operations added a total of 60,400 and 177,700 RGUs during the three and nine months ended September 30, 2009, respectively. Excluding the effects of acquisitions (RGUs added on the acquisition date), but including post-acquisition RGU additions, our continuing operations added 58,800 and 167,700 RGUs during the three and nine months ended September 30, 2009, respectively, as compared to 81,700 and 337,900 RGUs that were added by our continuing operations on an organic basis during the respective 2008 periods. The organic RGU growth during the 2009 periods is attributable to the growth of our (i) digital cable services, which added 180,000 and 678,900 RGUs, respectively, (ii) broadband internet services, which added 74,900 and 217,200 RGUs, respectively, and (iii) telephony services, which added 52,700 and 199,000 RGUs, respectively. The growth of our digital cable, telephony, broadband internet was partially offset by (i) declines in our analog cable RGUs of 248,200 and 907,500, respectively, and (ii) other less significant net aggregate declines in our multi-channel multi-point (microwave) distribution system (MMDS) and DTH video RGUs.

We are experiencing significant competition in all of our broadband communications markets, particularly in Europe. This significant competition, together with the effects of weakened economic conditions and the maturation of certain of our markets, has contributed to:

- (i) a decline in the organic growth rate for our consolidated revenue from 4.2% during the full year 2008 to 1.4% during the three months ended September 30, 2009, each rate as compared to the corresponding prior year period;
- (ii) organic declines in revenue in Hungary, the Netherlands, Austria, the Czech Republic and Ireland during the third quarter of 2009, as compared to the second quarter of 2009;
- (iii) organic declines in revenue in Austria and Hungary during the third quarter of 2009, as compared to the third quarter of 2008;
- (iv) organic declines in (a) video revenue in Ireland, Hungary, the Czech Republic and Slovakia, (b) internet revenue in Austria and Hungary and (c) telephony revenue in Switzerland, Chile, Austria and the Netherlands during the third quarter of 2009, as compared to the third quarter of 2008;
- (v) A lower number of net organic RGU additions during the third quarter of 2009, as compared to the third quarter of 2008;
- (vi) organic declines in RGUs in Hungary and, to a lesser extent, Switzerland, Austria and the Netherlands during the third quarter of 2009;

(vii) organic declines in video RGUs in all of our European markets other than Switzerland during the third quarter of 2009; and

(viii) organic declines in the average monthly subscription revenue earned per average RGU (ARPU) in the majority of our markets during the third quarter of 2009, as compared to the third quarter of 2008.

In general, our ability to increase or maintain the fees we receive for our services is limited by competitive, and to a lesser degree, regulatory factors. In this regard, most of our broadband communications markets experienced declines in ARPU from broadband internet and telephony services during the third quarter of 2009, as compared to the second quarter of 2009. These declines were mitigated somewhat by the impact of increased digital cable RGUs and other improvements in our RGU mix and the implementation of rate increases for analog cable and, to a lesser extent, other product offerings in certain markets.

We are facing difficult economic environments in most of the countries in which we operate. These economic environments have made it (i) more difficult to attract new subscribers, (ii) more likely that certain of our subscribers will downgrade or disconnect their services and (iii) more difficult to maintain ARPUs at existing levels. Accordingly, our ability to increase, or in certain cases maintain, the revenue, RGUs, operating cash flow and liquidity of our operating subsidiaries could be adversely affected to the extent that relevant economic environments remain weak or decline further. We are unable to predict the extent of any of these potential adverse effects.

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies or adverse regulatory initiatives could cause us to decide to undertake previously unplanned upgrades of our broadband communications networks in the impacted markets. In addition, no assurance can be given that any future upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our networks or making our other planned or unplanned capital expenditures, our growth could be limited and our competitive position could be harmed.

Our analog video service offerings include basic programming and, in some markets, expanded basic programming. We tailor both our basic channel line-up and our additional channel offerings to each system according to culture, demographics, programming preferences and local regulation. Our digital video service offerings include basic and premium programming and incremental product and service offerings such as enhanced pay-per-view programming (including video-on-demand and near video-on-demand), digital video recorders and high definition television services.

We offer broadband internet services in all of our broadband communications markets. Our residential subscribers generally access the internet via cable modems connected to their personal computers at various speeds depending on the tier of service selected. We determine pricing for each different tier of broadband internet service through analysis of speed, data limits, market conditions and other factors. We currently offer ultra high-speed internet services in most of our European markets, with download speeds ranging up to 120 Mbps. We expect to continue to expand the availability of ultra high-speed internet services throughout our European broadband communications markets.

We offer voice-over-internet-protocol, or "VoIP" telephony services in all of our broadband communications markets. In Austria, Chile, Hungary and the Netherlands, we also provide circuit-switched telephony services. In select markets we also offer mobile telephony services using third-party networks.

## **Material Changes in Results of Operations**

The comparability of our operating results during the 2009 and 2008 interim periods is affected by acquisitions. In the following discussion, we quantify the impact of acquisitions on our operating results. The acquisition impact represents our estimate of the difference between the operating results of the periods under comparison that is attributable to an acquisition. In general, we base our estimate of the acquisition impact on an acquired entity's operating results during the first three months following the acquisition date such that changes from those operating results in subsequent periods are considered to be organic changes.

Changes in foreign currency exchange rates have a significant impact on our reported operating results as certain of our operating segments have functional currencies other than the euro. Our primary exposure to foreign currency risk from a translation perspective is currently to the Swiss franc and the Chilean peso. In addition, our

reported operating results are impacted by changes in the exchange rates for the Hungarian forint and other local currencies in Europe. In this regard, 57.2% of our euro revenue during the nine months ended September 30, 2009 was derived from subsidiaries whose functional currency is other than the euro. The portions of the changes in the various components of our results of operations that are attributable to changes in foreign currency exchange rates from a translation perspective are highlighted under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Consolidated Operating Results* below.

The amounts presented and discussed below represent 100% of each operating segment's revenue and operating cash flow. As we have the ability to control VTR, U.S. GAAP requires that we consolidate 100% of the revenue and expenses of VTR in our condensed consolidated statements of operations despite the fact that a third party owns a significant interest in VTR. The noncontrolling owner's interests in the operating results of VTR are reflected in net earnings attributable to noncontrolling interests in our condensed consolidated statements of operations. When reviewing and analyzing our operating results, it is important to note that a third party owns a significant interest in VTR.

### **Discussion and Analysis of our Reportable Segments**

All of the reportable segments set forth below derive their revenue primarily from broadband communications services, including video, voice and broadband internet services. Certain segments also provide CLEC and other B2B services. At September 30, 2009, our operating segments in the UPC Broadband Division provided services in nine European countries. Our Other Central and Eastern Europe segment includes our operating segments in the Czech Republic, Poland, Romania and Slovakia. VTR provides broadband communications services in Chile. The UPC Broadband Division's central and corporate operations category includes billing systems, network operations, technology, marketing, facilities, finance, legal and other administrative costs.

For additional information concerning our reportable segments, including a discussion of our performance measures and a reconciliation of total segment operating cash flow to our loss from continuing operations before income taxes, see note 12 to our condensed consolidated financial statements.

The tables presented below in this section provide a separate analysis of each of the line items that comprise operating cash flow (revenue, operating expenses and SG&A expenses, excluding allocable stock-based compensation expense in accordance with our definition of operating cash flow) as well as an analysis of operating cash flow by reportable segment for the three and nine months ended September 30, 2009, as compared to the corresponding prior year periods. These tables present (i) the amounts reported by each of our reportable segments for the comparative periods, (ii) the euro change and percentage change from period to period and (iii) the percentage change from period to period, after removing FX. The comparisons that exclude FX assume that exchange rates remained constant during the periods that are included in each table. We also provide a table showing the operating cash flow margins of our reportable segments for the three and nine months ended September 30, 2009 and 2008 at the end of this section.

The revenue of our reportable segments includes amounts received from subscribers for ongoing services, installation fees, advertising revenue, mobile telephony revenue, channel carriage fees, telephony interconnect fees, late fees and amounts received for CLEC and other B2B services. Consistent with the presentation of our revenue categories in note 12 to our condensed consolidated financial statements, we use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue.

The rates charged for certain video services offered by our broadband communications operations are subject to rate regulation. Additionally, in Europe, our ability to bundle or discount our services may be constrained if we are held to be dominant with respect to any product we offer. The amounts we charge and incur with respect to telephony interconnection fees are also subject to regulatory oversight in many of our markets. Adverse outcomes from rate regulation or other regulatory initiatives could have a significant negative impact on our ability to maintain or increase our revenue. For information concerning adverse regulatory developments in the Netherlands, see note 11 to our condensed consolidated financial statements.

## Revenue of our Reportable Segments

	Three months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 201.6	€ 197.9	€ 3.7	1.9	1.9
Switzerland .....	181.0	170.3	10.7	6.3	0.3
Austria .....	86.2	90.5	(4.3)	(4.8)	(4.8)
Ireland .....	61.6	60.6	1.0	1.7	1.7
Total Western Europe .....	530.4	519.3	11.1	2.1	0.2
Hungary .....	59.2	73.2	(14.0)	(19.1)	(7.2)
Other Central and Eastern Europe .....	144.8	156.7	(11.9)	(7.6)	6.8
Total Central and Eastern Europe .....	204.0	229.9	(25.9)	(11.3)	2.4
Central and corporate operations .....	1.4	1.7	(0.3)	(17.6)	(17.6)
Total UPC Broadband Division .....	735.8	750.9	(15.1)	(2.0)	0.8
VTR (Chile) .....	125.7	119.8	5.9	4.9	5.5
Total UPC Holding .....	€ 861.5	€ 870.7	€ (9.2)	(1.1)	1.4
	Nine months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 609.7	€ 597.4	€ 12.3	2.1	2.1
Switzerland .....	545.9	510.3	35.6	7.0	0.5
Austria .....	260.8	275.8	(15.0)	(5.4)	(5.4)
Ireland .....	184.6	180.7	3.9	2.2	2.2
Total Western Europe .....	1,601.0	1,564.2	36.8	2.4	0.2
Hungary .....	176.0	209.3	(33.3)	(15.9)	(3.7)
Other Central and Eastern Europe .....	418.2	454.7	(36.5)	(8.0)	6.0
Total Central and Eastern Europe .....	594.2	664.0	(69.8)	(10.5)	2.9
Central and corporate operations .....	3.9	4.7	(0.8)	(17.0)	(17.0)
Total UPC Broadband Division .....	2,199.1	2,232.9	(33.8)	(1.5)	1.0
VTR (Chile) .....	371.9	368.8	3.1	0.8	7.2
Total UPC Holding .....	€ 2,571.0	€ 2,601.7	€ (30.7)	(1.2)	1.9

*The Netherlands.* The Netherlands' revenue increased €3.7 million or 1.9% and €12.3 million or 2.1% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These increases are attributable to increases in subscription revenue that were partially offset by decreases in non-subscription revenue. The increases in subscription revenue during the 2009 periods reflect the positive impact of higher ARPU. In addition, the positive impact of a higher number of average RGUs contributed to the increase during the nine-month period and a slightly lower number of average RGUs partially offset the positive impact of higher ARPU during the three-month period. ARPU increased during the 2009 periods, as compared to the corresponding 2008 periods, as the positive impacts of (i) improvements in the Netherlands' RGU mix, attributable to higher proportions of digital cable, telephony and broadband internet RGUs, (ii) January 2009 price increases for certain video, broadband internet and telephony services and (iii) growth in the Netherlands' digital cable services, including increased revenue from customers selecting higher-priced tiers and premium digital services and products, were only partially offset by the negative impacts of (a) competition, (b) lower ARPU from telephony services, primarily due to lower telephony call volumes and (c) customers selecting lower-priced tiers of broadband internet services. The negative effects of declines in the Netherlands' telephony ARPU contributed to slight organic declines in revenue from telephony services during the three and nine months ended September 30, 2009, as compared to the corresponding 2008 periods. The changes in the average numbers of RGUs during the 2009 periods are attributable to the net effect of declines in the average numbers of analog RGUs and increases in the average numbers of digital cable, telephony and broadband internet RGUs. The declines in the Netherlands' average numbers of analog cable RGUs are primarily attributable to (i) the effects of significant competition from the incumbent telecommunications operator in the Netherlands and (ii) the migration of analog cable customers to digital cable services. We expect that we will continue to face significant competition from the incumbent telecommunications operator in future periods. The decreases in the Netherlands' non-subscription revenue are primarily attributable to (i) decreases in revenue from B2B services, due largely to the loss of certain B2B contracts during 2008, and (ii) lower interconnect revenue, due largely to January 1, 2009 and July 1, 2009 reductions in termination rates imposed by regulatory authorities and decreases in call volumes.

*Switzerland.* Switzerland's revenue increased €10.7 million or 6.3% and €35.6 million or 7.0% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, Switzerland's revenue increased €0.5 million or 0.3% and €2.5 million or 0.5%, respectively. These increases are attributable to increases in subscription revenue that were partially offset by decreases in non-subscription revenue. The increase in subscription revenue for the three-month period is due to a slight increase in ARPU that was only partially offset by a decline in the average number of RGUs. The increase in subscription revenue for the nine-month period is due to an increase in the average number of RGUs and slightly higher ARPU. The changes in the average numbers of RGUs during the 2009 periods are attributable to the net effect of increases in the average numbers of digital cable, broadband internet and, for the nine-month period, telephony RGUs and decreases in the average numbers of analog cable RGUs and, for the three-month period, telephony RGUs. The declines in the average numbers of Switzerland's analog cable RGUs are primarily attributable to (i) the migration of analog cable subscribers to digital cable services and (ii) the effects of competition. ARPU increased slightly during the 2009 periods, as compared to the corresponding 2008 periods, as the positive impacts of (i) improvements in Switzerland's RGU mix, attributable to higher proportions of digital cable, broadband internet and telephony RGUs, (ii) increased revenue from premium digital services and products and (iii) increases in the proportion of broadband internet subscribers selecting higher-priced tiers of service were largely offset by the negative impacts of (a) competition and (b) lower ARPU from telephony services, primarily due to lower telephony call volumes. The negative effects of declines in Switzerland's telephony ARPU contributed to organic declines in revenue from telephony services during the three and nine months ended September 30, 2009, as compared to the corresponding 2008 periods. The decreases in Switzerland's non-subscription revenue are primarily attributable to the net effect of (i) lower revenue from B2B construction services and equipment sales and (ii) increases in revenue from late fees.

*Austria.* Austria's revenue decreased €4.3 million or 4.8% and €15.0 million or 5.4% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. The nine-month decrease is net of a €1.5 million increase attributable to the impact of an acquisition. Excluding the effect of the acquisition, Austria's nine-month revenue decreased €16.5 million or 6.0%. These decreases primarily are attributable to decreases in subscription revenue, as the negative impact of lower ARPU was only partially offset by the positive impact of higher average numbers of RGUs. The declines in subscription revenue, which are largely related to the significant competition we are experiencing in Austria, include declines in revenue from broadband internet and, to a lesser extent, telephony services that were only partially offset by slight increases in revenue from video services. ARPU decreased during the 2009 periods, as compared to the corresponding 2008 periods, as the negative impacts of (i) competition, (ii) higher proportions of customers selecting lower-priced tiers of video, broadband internet and telephony services, including, in the case of telephony services, usage-based calling plans, (iii) lower telephony call volumes and increases in the proportion of subscribers selecting VoIP telephony service,

which generally is priced lower than Austria's circuit-switched telephony service, were only partially offset by the positive impacts of (a) improvements in Austria's RGU mix, primarily attributable to higher proportions of digital cable RGUs, and (b) February and March 2009 rate increases for certain analog and digital cable services. The increases in the average numbers of RGUs are attributable to increases in the average numbers of digital cable and telephony RGUs that were only partially offset by decreases in the average numbers of analog cable and, to a lesser extent, broadband internet RGUs. The declines in the average numbers of analog cable and broadband internet RGUs are primarily attributable to competition, and in the case of analog cable RGUs, the migration of analog cable customers to digital cable services. In light of current competitive and economic conditions, we expect that Austria will continue to be challenged to maintain or increase its revenue on an organic basis.

*Ireland.* Ireland's revenue increased €1.0 million or 1.7% and €3.9 million or 2.2% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. The majority of these increases are attributable to increases in subscription revenue. The increases in subscription revenue are due primarily to increases in the average numbers of RGUs that were only partially offset during the three-month period by a decline in ARPU. The increases in the average number of RGUs are attributable to increases in the average numbers of broadband internet, telephony and digital cable RGUs that were only partially offset by declines in the average numbers of analog cable and MMDS video RGUs. The declines in the average numbers of analog cable RGUs are primarily attributable to (i) the effects of competition and (ii) the migration of analog cable subscribers to digital cable services. ARPU decreased during the three-month period and remained relatively constant during the nine-month period. The changes in ARPU are attributable to the net effect of (i) increases due to improvements in Ireland's RGU mix, primarily attributable to higher proportions of digital cable, telephony and broadband internet RGUs, (ii) increases due to a January 2009 price increase for certain video services and January 2009 and July 2008 price increases for certain broadband internet services, (iii) increases due to higher proportions of broadband internet and telephony customers selecting higher-priced tiers of service, (iv) decreases due to competition, (v) decreases due to lower telephony call volumes and other changes in subscriber calling patterns and (vi) decreases due to higher proportions of subscribers selecting lower-priced tiers of digital cable service and fewer premium digital products and services. The negative impacts of the lower average numbers of analog cable and MMDS RGUs contributed to organic declines in the average number of video RGUs and revenue from video services in Ireland during the three and nine months ended September 30, 2009, as compared to the corresponding 2008 period. Ireland's non-subscription revenue increased during the three and nine months ended September 30, 2009, as compared to the corresponding 2008 periods, primarily attributable to increases in (i) installation revenue and (ii) B2B revenue, due primarily to growth in the number of business broadband internet and telephony customers.

*Hungary.* Hungary's revenue decreased €14.0 million or 19.1% and €33.3 million or 15.9% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These decreases are net of increases during each of the three and nine months ended September 30, 2009, of €0.3 million, attributable to the impact of an acquisition. Excluding FX and the effects of the acquisition, Hungary's revenue decreased €5.5 million or 7.5% and €8.0 million or 3.8%, respectively, due primarily to declines in subscription revenue. The declines in subscription revenue during the 2009 periods reflect the negative impact of lower ARPU. In addition, the negative impact of a lower number of average subscribers contributed to the decrease during the three-month period and a higher number of average subscribers partially offset the negative impact of lower ARPU during the nine-month period. The changes in the average numbers of RGUs during the 2009 periods are attributable to the net effect of declines in the average numbers of analog RGUs and increases in the average numbers of digital cable, broadband internet, telephony and DTH RGUs. The declines in the average numbers of Hungary's analog cable RGUs are primarily attributable to (i) the migration of analog cable subscribers to digital cable services and (ii) the effects of competition. The declines in subscription revenue, which are largely related to the significant competition we are experiencing in Hungary, include declines in revenue from video and broadband internet services that were only partially offset by increases in revenue from telephony services. ARPU declined during the 2009 periods, as compared to the corresponding periods in 2008, as the positive impact of improvements in Hungary's RGU mix, primarily attributable to a higher proportion of digital cable and broadband internet RGUs was more than offset by the negative impacts of (i) competition, (ii) a higher proportion of customers selecting lower-priced tiers of broadband internet, video and telephony services, (iii) lower telephony call volumes and other changes in subscriber calling patterns and (iv) lower revenue from premium video services, such as extended basic tiers and additional sports and movie packages. During the nine-month period, Hungary's non-subscription revenue increased, due primarily to growth in B2B revenue associated with a higher number of business broadband internet and telephony customers. In light of current competitive and economic conditions, we expect that Hungary will continue to be challenged to maintain or increase its revenue on an organic basis.

*Other Central and Eastern Europe.* Other Central and Eastern Europe's revenue decreased €11.9 million or 7.6% and €36.5 million or 8.0% during the three and nine months ended September 30, 2009, respectively, as



compared to the corresponding prior year periods. The nine-month decrease is net of a €0.8 million increase attributable to the impact of acquisitions. Excluding FX and the effects of acquisitions, Other Central and Eastern Europe's revenue increased €10.7 million or 6.8% and €26.3 million or 5.8%, respectively. Most of these increases are attributable to increases in subscription revenue that resulted from (i) higher average numbers of RGUs and (ii) slight increases in ARPU. The increases in the average numbers of RGUs are primarily attributable to increases (mostly in the Czech Republic, Poland and Romania) in the average numbers of digital cable, broadband internet and telephony RGUs that were only partially offset by declines in the average numbers of analog cable RGUs. The declines in the average numbers of analog cable RGUs, which are attributable primarily to (i) the migration of analog cable subscribers to digital cable services and (ii) the effects of competition, led to declines in the average numbers of total video RGUs in Other Central and Eastern Europe during the 2009 periods, as compared to the corresponding periods in 2008. These declines include video RGU decreases in Romania, the Czech Republic and, to a lesser extent, Slovakia that were only partially offset by small increases in Poland. ARPU increased slightly in our Other Central and Eastern Europe segment during the 2009 periods, as compared to the corresponding periods in 2008, as the positive impacts of (i) improvements in RGU mix, primarily attributable to higher proportions of digital cable and broadband internet RGUs and (ii) rate increases for certain video and telephony services in several countries were only partially offset by the negative impacts of (a) competition, (b) a higher proportion of broadband internet and video subscribers selecting lower-priced tiers, (c) lower analog and digital cable revenue from premium video services and products and (d) lower telephony call volumes and other changes in telephony subscriber calling patterns. Other Central and Eastern Europe's non-subscription revenue increased during the 2009 periods, as compared to the corresponding periods in 2008, as decreases in revenue from B2B services in Romania were more than offset by higher installation and interconnect revenue and individually insignificant net increases in other non-subscription revenue categories.

Although competition is a factor throughout our Other Central and Eastern Europe markets, we are experiencing particularly intense competition in Romania. In Romania, competition has contributed to (i) declines in video revenue and overall revenue and (ii) a slight decline in ARPU during the nine months ended September 30, 2009, each as compared to the corresponding prior year period. In response to the level of competition in Romania, we have implemented aggressive pricing and marketing strategies. These strategies have contributed to sequential organic increases in Romania's video revenue and overall subscription revenue during each of the past three quarters. While these strategies were implemented with the objective of maintaining our market share in Romania and enhancing our prospects for continued revenue growth in future periods, no assurance can be given that we will be successful in meeting these objectives. We expect that we will continue to experience significant competition in future periods in Romania and other markets within our Other Central and Eastern Europe segment.

Recent political changes have led to increased political instability and economic uncertainty in Romania. Any further deterioration of economic conditions in Romania could have a material adverse impact on our Romanian operations.

*VTR (Chile).* VTR's revenue increased €5.9 million or 4.9% and €3.1 million or 0.8% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, VTR's revenue increased €6.5 million or 5.5% and €26.4 million or 7.2%, respectively. Most of these increases are attributable to increases in subscription revenue that resulted primarily from higher average numbers of broadband internet, telephony and video RGUs during the 2009 periods. In addition, the positive impact of slightly higher ARPU contributed to the increase during the nine-month period and a slight decrease in ARPU partially offset the positive impact of the higher average number of RGUs during the three-month period. The changes in ARPU are attributable to the net effect of (i) improvements in VTR's RGU mix, attributable to higher proportions of digital cable and broadband internet RGUs, (ii) increases due to March 2008, September 2008, January 2009 and June 2009 inflation and other price adjustments for certain video, broadband internet and telephony services, (iii) decreases due to competition, particularly from the incumbent telecommunications operator in Chile, and (iv) decreases due to higher proportions of subscribers selecting lower-priced tiers of video, broadband internet and telephony services. The negative effects of declines in VTR's telephony ARPU contributed to organic declines in revenue from telephony services during the three and nine months ended September 30, 2009, as compared to the corresponding 2008 periods.

## Operating Expenses of our Reportable Segments

	Three months ended		Increase (decrease)		Increase (decrease)
	September 30,				excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 58.2	€ 60.5	€ (2.3)	(3.8)	(3.8)
Switzerland.....	52.6	52.8	(0.2)	(0.4)	(6.0)
Austria .....	27.8	29.8	(2.0)	(6.7)	(6.7)
Ireland .....	29.0	28.9	0.1	0.3	0.3
Total Western Europe .....	167.6	172.0	(4.4)	(2.6)	(4.3)
Hungary .....	24.3	27.0	(2.7)	(10.0)	3.3
Other Central and Eastern Europe .....	51.6	54.2	(2.6)	(4.8)	9.7
Total Central and Eastern Europe .....	75.9	81.2	(5.3)	(6.5)	7.6
Central and corporate operations .....	7.1	7.3	(0.2)	(2.7)	(1.4)
Total UPC Broadband Division.....	250.6	260.5	(9.9)	(3.8)	(0.5)
VTR (Chile).....	54.1	51.4	2.7	5.3	6.0
Total operating expenses excluding stock-based compensation expense.....	304.7	311.9	(7.2)	(2.3)	0.6
Stock-based compensation expense.....	1.9	1.8	0.1	5.6	
Total UPC Holding .....	€ 306.6	€ 313.7	€ (7.1)	(2.3)	
	Nine months ended		Increase (decrease)		Increase (decrease)
	September 30,				excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 185.8	€ 191.8	€ (6.0)	(3.1)	(3.1)
Switzerland.....	160.3	160.0	0.3	0.2	(5.9)
Austria .....	85.3	90.9	(5.6)	(6.2)	(6.2)
Ireland .....	85.4	87.8	(2.4)	(2.7)	(2.7)
Total Western Europe .....	516.8	530.5	(13.7)	(2.6)	(4.4)
Hungary .....	69.8	78.1	(8.3)	(10.6)	2.2
Other Central and Eastern Europe .....	152.3	161.5	(9.2)	(5.7)	8.5
Total Central and Eastern Europe .....	222.1	239.6	(17.5)	(7.3)	6.5
Central and corporate operations .....	24.9	24.8	0.1	0.4	1.1
Total UPC Broadband Division.....	763.8	794.9	(31.1)	(3.9)	(1.0)
VTR (Chile).....	161.6	152.1	9.5	6.2	12.9
Total operating expenses excluding stock-based compensation expense.....	925.4	947.0	(21.6)	(2.3)	1.3
Stock-based compensation expense.....	4.0	4.9	(0.9)	(18.4)	
Total UPC Holding .....	€ 929.4	€ 951.9	€ (22.5)	(2.4)	

*General.* Operating expenses include programming, network operations, interconnect, customer operations, customer care, stock-based compensation expense and other direct costs. We do not include stock-based compensation in the following discussion and analysis of the operating expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Consolidated Operating Results* below. Programming costs, which represent a significant portion of our operating costs, are expected to rise in future periods as a result of the expansion of service offerings and the potential for price increases. In addition, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to costs and expenses that are denominated in currencies other than the respective functional currencies of our operating segments (non-functional currency expenses). Any cost increases that we are not able to pass on to our subscribers through service rate increases would result in increased pressure on our operating margins.

*UPC Broadband Division.* The UPC Broadband Division's operating expenses (exclusive of stock-based compensation expense) decreased €9.9 million or 3.8% and €31.1 million or 3.9% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These decreases are net of €0.1 million and €1.1 million increases, respectively, attributable to the impact of acquisitions. Excluding FX and the effects of acquisitions, the UPC Broadband Division's operating expenses decreased €1.4 million or 0.5% and €8.8 million or 1.1%, respectively. These decreases include the following factors:

- Decreases in interconnect and access costs of €3.6 million or 11.6% and €14.6 million or 15.4%, respectively, due primarily to the net effect of (i) lower interconnect and access rates in Switzerland, the Netherlands and Austria, (ii) lower B2B volume in the Netherlands and (iii) higher interconnect rates and growth in telephony and internet subscribers in Ireland;
- Increases in programming and related costs of €3.6 million or 6.0% and €10.4 million or 5.8%, respectively, primarily due to (i) growth in digital cable services, predominantly in Austria, the Netherlands, Romania and Poland, and (ii) foreign currency exchange rate fluctuations with respect to non-functional currency expenses associated with certain programming contracts in our central and eastern European markets, including Poland, Hungary and Romania. These increases were partially offset by decreases in programming and related costs in Ireland as a result of (i) lower video cable RGUs and (ii) the impact of subscribers selecting lower-priced tiers of digital video services and products;
- Decreases associated with lower levels of B2B construction services and equipment sales in Switzerland of €2.0 million and €6.1 million, respectively;
- Decreases in personnel costs of €3.5 million or 7.0% and €5.1 million or 3.3%, respectively, primarily due to certain restructuring activities in Austria and lower staffing levels in Romania;
- Decreases in bad debt and collection expenses of €1.7 million and €1.1 million, respectively, due largely to decreases in bad debt expenses in Romania and Ireland that were only partially offset by increases in Switzerland; and
- Individually insignificant net increases in other operating expense categories.

*VTR (Chile).* VTR's operating expenses (exclusive of stock-based compensation expense) increased €2.7 million or 5.3% and €9.5 million or 6.2% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, VTR's operating expenses increased €3.1 million or 6.0% and €19.6 million or 12.9%, respectively. These increases include the following factors:

- Increases in programming and related costs of €2.5 million or 16.5% and €11.6 million or 25.7%, respectively, due primarily to (i) growth in VTR's digital cable services and (ii) foreign currency exchange fluctuations, particularly during the nine-month period, with respect to VTR's U.S. dollar denominated programming contracts. Most of VTR's programming costs are denominated in U.S. dollars;
- Increases in bad debt expense of €0.7 million and €4.9 million, respectively, due primarily to (i) an increase in VTR's customer base and (ii) the impact of difficult economic conditions. An increase associated with the second quarter 2008 reversal of a €2.4 million bad debt reserve in connection with the settlement of an interconnect fee dispute also contributed to the increase during the nine-month period.

- Increases in network-related expenses of €1.4 million or 20.9% and €4.6 million or 23.4%, respectively, due primarily to higher maintenance, materials and electricity costs; and
- Decreases in interconnect and access costs of €1.8 million or 16.5% and €3.0 million or 9.3%, respectively, primarily due to the net effect of (i) decreases associated with lower tariff rates and call volumes and (ii) increases associated with higher average numbers of broadband internet and telephony subscribers.

### ***SG&A Expenses of our Reportable Segments***

	Three months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 21.2	€ 22.0	€ (0.8)	(3.6)	(3.6)
Switzerland .....	25.2	25.9	(0.7)	(2.7)	(8.4)
Austria .....	13.5	13.7	(0.2)	(1.5)	(1.5)
Ireland .....	8.2	8.1	0.1	1.2	1.2
Total Western Europe .....	68.1	69.7	(1.6)	(2.3)	(4.4)
Hungary .....	5.7	7.8	(2.1)	(26.9)	(17.2)
Other Central and Eastern Europe .....	14.8	18.1	(3.3)	(18.2)	(4.1)
Total Central and Eastern Europe .....	20.5	25.9	(5.4)	(20.8)	(8.1)
Central and corporate operations .....	28.2	29.7	(1.5)	(5.1)	(4.3)
Total UPC Broadband Division .....	116.8	125.3	(8.5)	(6.8)	(5.1)
VTR (Chile) .....	19.4	20.4	(1.0)	(4.9)	(4.0)
Total SG&A expenses excluding stock-based compensation expense .....	136.2	145.7	(9.5)	(6.5)	(5.0)
Stock-based compensation expense .....	9.0	8.6	0.4	4.7	
Total UPC Holding .....	€ 145.2	€ 154.3	€ (9.1)	(5.9)	
	Nine months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 67.8	€ 71.6	€ (3.8)	(5.3)	(5.3)
Switzerland .....	80.5	82.6	(2.1)	(2.5)	(8.5)
Austria .....	42.8	43.6	(0.8)	(1.8)	(1.8)
Ireland .....	25.4	23.9	1.5	6.3	6.3
Total Western Europe .....	216.5	221.7	(5.2)	(2.3)	(4.6)
Hungary .....	18.3	23.5	(5.2)	(22.1)	(10.9)
Other Central and Eastern Europe .....	49.9	56.4	(6.5)	(11.5)	2.7
Total Central and Eastern Europe .....	68.2	79.9	(11.7)	(14.6)	(1.3)
Central and corporate operations .....	83.9	90.5	(6.6)	(7.3)	(5.8)
Total UPC Broadband Division .....	368.6	392.1	(23.5)	(6.0)	(4.2)
VTR (Chile) .....	59.6	65.8	(6.2)	(9.4)	(3.6)
Total SG&A expenses excluding stock-based compensation expense .....	428.2	457.9	(29.7)	(6.5)	(4.1)
Stock-based compensation expense .....	19.4	23.7	(4.3)	(18.1)	
Total UPC Holding .....	€ 447.6	€ 481.6	€ (34.0)	(7.1)	

*General.* SG&A expenses include human resources, information technology, general services, management, finance, legal and marketing costs, stock-based compensation and other general expenses. We do not include stock-based compensation in the following discussion and analysis of the SG&A expenses of our reportable segments as stock-based compensation expense is not included in the performance measures of our reportable segments. Stock-based compensation expense is discussed under the *Discussion and Analysis of Our Consolidated Operating Results* below. As noted under *Operating Expenses* above, we are subject to inflationary pressures with respect to our labor and other costs and foreign currency exchange risk with respect to non-functional currency expenses.

*UPC Broadband Division.* The UPC Broadband Division's SG&A expenses (exclusive of stock-based compensation expense) decreased €8.5 million or 6.8% and €23.5 million or 6.0% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. The nine-month decrease is net of a €0.1 million increase attributable to the impact of acquisitions. Excluding FX and the effects of acquisitions, the UPC Broadband Division's SG&A expenses decreased €6.5 million or 5.2% and €16.5 million or 4.2%, respectively. These decreases include the following factors:

- A decrease during the nine-month period in outsourced labor and professional fees of €5.8 million or 24.2%, due primarily to (i) decreases in system implementation and other information technology costs incurred by the UPC Broadband Division's central and corporate operations, (ii) a decrease related to costs incurred during the 2008 period associated with a billing system migration in Switzerland and (iii) decreases in sales and marketing and information technology costs in the Netherlands;
- Decreases in sales and marketing costs of €3.6 million or 11.0% and €4.8 million or 4.5%, respectively, due largely to lower marketing costs in the Netherlands, Austria and Hungary;
- An increase during the nine-month period in personnel costs of €3.2 million or 1.9%, including increases in the Netherlands due to increased staffing levels and annual wage increases; and
- Individually insignificant net decreases in telecommunications, audit, legal and other SG&A expense categories, due largely to cost containment efforts.

*VTR (Chile).* VTR's SG&A expenses (exclusive of stock-based compensation expense) decreased €1.0 million or 4.9% and €6.2 million or 9.4% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, VTR's SG&A expenses decreased €0.8 million or 4.0% and €2.4 million or 3.6%, respectively. These decreases include the following factors:

- Decreases in labor and related costs of €1.5 million or 16.1% and €2.7 million or 10.4%, respectively, primarily due to (i) reduced staffing levels and (ii) lower severance costs; and
- A decrease during the nine-month period in legal fees of €0.6 million, due primarily to legal fees incurred during the second quarter of 2008 in connection with the settlement of an interconnect fee dispute.

## Operating Cash Flow of our Reportable Segments

Operating cash flow is the primary measure used by our chief operating decision maker to evaluate segment operating performance. As we use the term, operating cash flow is defined as revenue less operating and SG&A expenses (excluding stock-based compensation, related-party fees and allocations, depreciation and amortization, and impairment, restructuring and other operating charges or credits). For additional information concerning this performance measure and for a reconciliation of total segment operating cash flow to our loss from continuing operations before income taxes, see note 12 to our condensed consolidated financial statements.

### Operating Cash Flow

	Three months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 122.2	€ 115.4	€ 6.8	5.9	5.9
Switzerland .....	103.2	91.6	11.6	12.7	6.4
Austria .....	44.9	47.0	(2.1)	(4.5)	(4.5)
Ireland .....	24.4	23.6	0.8	3.4	3.4
Total Western Europe .....	294.7	277.6	17.1	6.2	4.1
Hungary .....	29.2	38.4	(9.2)	(24.0)	(12.5)
Other Central and Eastern Europe .....	78.4	84.4	(6.0)	(7.1)	7.3
Total Central and Eastern Europe .....	107.6	122.8	(15.2)	(12.4)	1.1
Central and corporate operations .....	(33.9)	(35.3)	1.4	4.0	3.0
Total UPC Broadband Division .....	368.4	365.1	3.3	0.9	3.8
VTR (Chile) .....	52.2	48.0	4.2	8.8	8.9
Total .....	€ 420.6	€ 413.1	€ 7.5	1.8	4.4
	Nine months ended		Increase (decrease)		Increase (decrease)
	September 30,		Increase (decrease)		excluding FX
	2009	2008	€	%	%
	in millions				
UPC Broadband Division:					
The Netherlands .....	€ 356.1	€ 334.0	€ 22.1	6.6	6.6
Switzerland .....	305.1	267.7	37.4	14.0	7.1
Austria .....	132.7	141.3	(8.6)	(6.1)	(6.1)
Ireland .....	73.8	69.0	4.8	7.0	7.0
Total Western Europe .....	867.7	812.0	55.7	6.9	4.6
Hungary .....	87.9	107.7	(19.8)	(18.4)	(6.4)
Other Central and Eastern Europe .....	216.0	236.8	(20.8)	(8.8)	5.0
Total Central and Eastern Europe .....	303.9	344.5	(40.6)	(11.8)	1.4
Central and corporate operations .....	(104.9)	(110.6)	5.7	5.2	3.8
Total UPC Broadband Division .....	1,066.7	1,045.9	20.8	2.0	4.4
VTR (Chile) .....	150.7	150.9	(0.2)	(0.1)	6.1
Total .....	€ 1,217.4	€ 1,196.8	€ 20.6	1.7	4.6

## Operating Cash Flow Margin

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
	%	%	%	%
UPC Broadband Division:				
The Netherlands.....	60.6	58.3	58.4	55.9
Switzerland .....	57.0	53.8	55.9	52.5
Austria.....	52.1	51.9	50.9	51.2
Ireland .....	39.6	38.9	40.0	38.2
Total Western Europe .....	55.6	53.5	54.2	51.9
Hungary .....	49.3	52.5	49.9	51.5
Other Central and Eastern Europe .....	54.1	53.9	51.6	52.1
Total Central and Eastern Europe.....	52.7	53.4	51.1	51.9
Total UPC Broadband Division, including central and corporate operations .....	50.1	48.6	48.5	46.8
VTR (Chile) .....	41.5	40.1	40.5	40.9

While we experienced improvement in the operating cash flow margins of several of our reportable segments during the nine months ended September 30, 2009, as compared to the corresponding period in 2008, competitive and economic factors have resulted in (i) a decline in the operating cash flow margin of Hungary and (ii) relatively flat operating cash flow margins in Austria, Other Central and Eastern Europe and VTR. Foreign currency impacts associated with non-functional currency expenses have also negatively impacted our operating cash flow margins, particularly in our VTR, Other Central and Eastern Europe and Hungary segments. The improvements in the operating cash flow margins of our reportable segments in the Netherlands, Switzerland and Ireland are largely a function of increased operational leverage resulting from either (i) revenue growth that is more than offsetting the accompanying increases in operating and SG&A expenses, (ii) cost containment efforts or (iii) a combination of these factors. For additional discussion of the factors contributing to the changes in the operating cash flow margins of our reportable segments, see the above analyses of the revenue, operating expenses and SG&A expenses of our reportable segments. As discussed under *Overview* and *Discussion and Analysis of our Reportable Segments* above, most of our broadband communications operations are experiencing significant competition and difficult economic conditions. Sustained or increased competition, particularly in combination with difficult economic conditions, could adversely affect our ability to maintain or improve the operating cash flow margins of our reportable segments.

## Discussion and Analysis of our Consolidated Operating Results

### General

For more detailed explanations of the changes in our revenue, operating expenses and SG&A expenses, see the *Discussion and Analysis of our Reportable Segments* that appears above.

### Revenue

Our revenue by major category is set forth below:

	Three months ended September 30,		Increase (decrease)		Increase (decrease) excluding FX	Increase (decrease) excluding acquisitions and FX
	2009	2008	€	%	%	%
	in millions					
Subscription revenue (a):						
Video .....	€ 431.8	€ 442.1	€ (10.3)	(2.3)	0.6	0.5
Broadband internet .....	215.3	212.7	2.6	1.2	4.2	4.2
Telephony .....	119.4	121.6	(2.2)	(1.8)	(0.1)	(0.2)
Total subscription revenue .....	766.5	776.4	(9.9)	(1.3)	1.5	1.4
Other revenue (b) .....	95.0	94.3	0.7	0.7	1.2	1.2
Total UPC Holding .....	€ 861.5	€ 870.7	€ (9.2)	(1.1)	1.4	1.4
	Nine months ended September 30,		Increase (decrease)		Increase (decrease) excluding FX	Increase (decrease) excluding acquisitions and FX
	2009	2008	€	%	%	%
	in millions					
Subscription revenue (a):						
Video .....	€ 1,292.8	€ 1,320.8	€ (28.0)	(2.1)	1.2	1.1
Broadband internet .....	638.2	626.6	11.6	1.9	5.8	5.7
Telephony .....	358.5	364.5	(6.0)	(1.6)	1.1	1.1
Total subscription revenue .....	2,289.5	2,311.9	(22.4)	(1.0)	2.4	2.3
Other revenue (b) .....	281.5	289.8	(8.3)	(2.9)	(2.6)	(2.6)
Total UPC Holding .....	€ 2,571.0	€ 2,601.7	€ (30.7)	(1.2)	1.9	1.8

(a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees, late fees and mobile telephony revenue. Subscription revenue from subscribers who purchase bundled services at a discounted rate is generally allocated proportionally to each service based on the stand-alone price for each individual service. However, due to regulatory and other constraints, the methodology used to allocate bundling discounts may vary somewhat among our broadband communications operating segments.

(b) Other revenue includes non-subscription revenue (including B2B and installation revenue).

**Total revenue.** Our consolidated revenue decreased €9.2 million or 1.1% and €30.7 million or 1.2% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These decreases are net of increases of €0.3 million and €2.7 million, respectively, attributable to the impact of acquisitions. Excluding FX and the effects of acquisitions, total consolidated revenue increased €12.3 million or 1.4% and €46.1 million or 1.8%, respectively.

**Subscription revenue.** Excluding FX and the effects of acquisitions, our consolidated subscription revenue increased €11.2 million or 1.4% and €53.5 million or 2.3% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These increases are attributable to (i) increases in subscription revenue from broadband internet services of €9.0 million or 4.2% and €35.4 million or



5.7%, respectively, as the impact of increases in the average numbers of broadband internet RGUs was only partially offset by lower ARPU from broadband internet services, (ii) increases in subscription revenue from video services of €2.4 million or 0.5% and €14.1 million or 1.1%, respectively, as the impact of higher ARPU from video services was only partially offset by declines in the average numbers of video RGUs and (iii) an increase in subscription revenue from telephony services during the nine-month period of €4.0 million or 1.1%, as the impact of an increase in the average number of telephony RGUs was only partially offset by lower ARPU from telephony services.

*Other revenue.* Excluding FX and the effects of acquisitions, our consolidated other revenue increased €1.1 million or 1.2% during the three months ended September 30, 2009 and decreased €7.4 million or 2.6% during the nine months ended September 30, 2009, as compared to the corresponding prior year periods. These changes are primarily attributable to the net effect of (i) decreases in B2B and interconnect revenue and (ii) higher installation revenue.

For additional information concerning the changes in our revenue, see *Discussion and Analysis of Reportable Segments – Revenue* above. For information regarding the competitive environment in certain of our markets, see *Overview* and *Discussion and Analysis of our Reportable Segments* above.

#### *Operating expenses*

Our consolidated operating expenses decreased €7.1 million or 2.3% and €22.5 million or 2.4% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These decreases are net of increases of €0.1 million and €1.1 million, respectively, attributable to the impact of acquisitions. Our operating expenses include stock-based compensation expense, which increased €0.1 million and decreased €0.9 million, respectively. For additional information, see the discussion following *SG&A expenses* below. Excluding FX, the effects of acquisitions and stock-based compensation expense, total consolidated operating expenses increased €1.7 million or 0.5% and €10.8 million or 1.1% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. As discussed in more detail under *Discussion and Analysis of Reportable Segments – Operating Expenses* above, these increases generally reflect the net impact of (i) increases in programming and related costs, (ii) decreases in interconnect and access costs, (iii) increases in network-related expenses and (iv) less significant net decreases in other operating expense categories.

#### *SG&A expenses*

Our consolidated SG&A expenses decreased €9.1 million or 5.9% and €34.0 million or 7.1% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. The nine-month decrease is net of an increase of €0.1 million attributable to the impact of acquisitions. Our SG&A expenses include stock-based compensation expense, which increased €0.4 million and decreased €4.3 million, respectively. For additional information, see the discussion in the following paragraph. Excluding FX, the effects of acquisitions and stock-based compensation expense, total consolidated SG&A expenses decreased €7.3 million or 5.0% and €18.9 million or 4.1% during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. As discussed in more detail under *Discussion and Analysis of our Reportable Segments – SG&A Expenses* above, these decreases generally reflect the net impact of (i) decreases in outsourced labor and professional fees, (ii) net decreases in sales and marketing costs and (iii) less significant net decreases in other SG&A expense categories.

*Stock-based compensation expense (included in operating and SG&A expenses)*

Our stock-based compensation includes amounts allocated to our company by LGI and amounts that are based on stock incentive awards related to shares of our subsidiaries. The amounts allocated by LGI to our company represent the stock-based compensation associated with the stock incentive awards held by employees of our subsidiaries, including awards granted to these individuals pursuant to the LGI Performance Plans. A summary of the aggregate stock-based compensation expense that is included in our operating and SG&A expenses is set forth below:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	in millions			
LGI common stock:				
LGI performance plans (a) .....	€ 6.3	€ 7.6	€ 9.8	€ 21.0
Stock options, SARs, restricted shares and restricted share units....	<u>3.5</u>	<u>3.8</u>	<u>12.3</u>	<u>9.8</u>
Total LGI common stock .....	9.8	11.4	22.1	30.8
Other.....	<u>1.1</u>	<u>(1.0)</u>	<u>1.3</u>	<u>(2.2)</u>
Total .....	<u>€ 10.9</u>	<u>€ 10.4</u>	<u>€ 23.4</u>	<u>€ 28.6</u>
Included in:				
Operating expense.....	€ 1.9	€ 1.8	€ 4.0	€ 4.9
SG&A expense.....	<u>9.0</u>	<u>8.6</u>	<u>19.4</u>	<u>23.7</u>
Total .....	<u>€ 10.9</u>	<u>€ 10.4</u>	<u>€ 23.4</u>	<u>€ 28.6</u>

- (a) The stock-based compensation expense related to the LGI performance plans during the nine months ended September 30, 2009 includes a €1.4 million reduction associated with the first quarter 2009 settlement of the second installment of awards issued to employees of our subsidiaries under the LGI Performance Plans and a €8.2 million reduction related to the first quarter 2009 forfeiture of certain awards. For additional information concerning these items, see note 9 to our condensed consolidated financial statements.

*Depreciation and amortization expense*

Our consolidated depreciation and amortization expense decreased €3.6 million and €19.8 million during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, depreciation and amortization expense increased €2.8 million or 1.0% and €1.9 million or 0.2%, respectively. These increases are due primarily to the net effect of (i) increases associated with capital expenditures related to the installation of customer premise equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) decreases associated with certain assets becoming fully depreciated and (iii) increases associated with acquisitions.

*Impairment, restructuring and other operating charges (credits), net*

We recognized impairment, restructuring and other operating charges (credits), net, of (€0.4 million) and €89.1 million during the three and nine months ended September 30, 2009, respectively, as compared to €1.0 million and €5.9 million during the corresponding prior year periods. As further described below, the 2009 nine-month amount includes a second quarter 2009 charge of €84.7 million to reduce the carrying value of the goodwill associated with our Romanian reporting unit.

During the fourth quarter of 2008, we recorded a €107.0 million goodwill impairment charge with respect to our broadband communications reporting unit in Romania. During June 2009, we concluded that an additional goodwill impairment charge was warranted for this reporting unit, due largely to adverse competitive and economic factors, including changes in foreign currency exchange rates that adversely impacted U.S. dollar and euro denominated cash outflows. These factors have led to (i) lower than expected levels of revenue, cash flows and subscribers and (ii) declines in the forecasted cash flows of our Romanian reporting unit. Consistent with our approach to the valuation of this reporting unit during the fourth quarter of 2008, our June 2009 fair value assessment was based primarily on a discounted cash flow analysis due to the limited number of recent transactions involving businesses similar to our Romanian reporting unit. Based on this discounted cash flow analysis, which reflected the aforementioned declines in forecasted cash flows and a discount rate of 19%, we

determined that an additional goodwill impairment charge of €84.7 million was necessary to reflect a further decline in the fair value of our Romanian reporting unit. Further hypothetical decreases of 20% and 30% in the June 2009 fair value of our Romanian reporting unit would have resulted in additional estimated goodwill impairment charges during the second quarter of 2009 ranging from approximately €30 million to €55 million and from approximately €50 million to €70 million, respectively.

We continue to experience difficult economic environments and significant competition in most of our markets. If, among other factors, (i) LGI's equity value declines or (ii) the adverse impacts of economic or competitive factors are worse than anticipated, we could conclude in future periods that impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Depending on (i) LGI's equity value, (ii) economic and competitive conditions and (iii) other factors, any such impairment charges could be significant.

#### *Interest expense – related party*

Our consolidated related-party interest expense relates to the interest expense on our shareholder loan. Our total consolidated related-party interest expense increased €4.2 million and €5.8 million during the three and nine months ended September 30, 2009, respectively, as compared to the 2008 periods. These increases reflect the net effect of (i) an increase in the interest rate on our shareholder loan from 7.06% during the 2008 periods to 7.58% during the 2009 periods and (ii) slight decreases in the average outstanding balances of our shareholder loan during the 2009 periods as compared to the corresponding prior year periods. For additional information, see note 8 to our condensed consolidated financial statements.

#### *Interest expense – third party*

Our consolidated third-party interest expense decreased €14.5 million and €54.6 million during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. Excluding FX, third-party interest expense decreased €14.5 million or 12.5% and €53.8 million or 16.0%, respectively, as decreases associated with lower weighted average interest rates more than offset increases associated with higher average outstanding debt balances. The declines in our weighted average interest rates are due primarily to lower interest rates on the UPC Broadband Holding Bank Facility and our other variable-rate indebtedness.

It is possible that (i) the interest rates on any new borrowings could be higher than the current interest rates on our existing indebtedness and (ii) the interest rates incurred on our variable-rate indebtedness could increase in future periods. We use derivative instruments to manage our interest rate risks. For additional information, see note 5 to our condensed consolidated financial statements.

#### *Interest income*

Our consolidated interest income decreased €1.2 million and €3.4 million during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These decreases primarily are attributable to lower weighted average interest rates earned on our cash and cash equivalent balances as compared to the corresponding prior year periods.

*Realized and unrealized losses on derivative instruments, net*

Our realized and unrealized losses on derivative instruments include (i) unrealized changes in the fair values of our derivative instruments that are non-cash in nature until such time as the underlying contracts are fully or partially settled and (ii) realized gains (losses) upon the full or partial settlement of the underlying contracts. The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
Cross-currency and interest rate derivative contracts (a) .....	€ (192.4)	€ (67.0)	€ (472.1)	€ (118.6)
Foreign currency forward contracts .....	3.3	(5.1)	(3.3)	—
Embedded derivatives .....	1.6	(0.4)	0.5	1.1
Total .....	<u>€ (187.5)</u>	<u>€ (72.5)</u>	<u>€ (474.9)</u>	<u>€ (117.5)</u>

- (a) The loss during the 2009 three-month period primarily is attributable to the net effect of (i) losses associated with increases in the values of the Hungarian forint, Czech koruna and Swiss franc relative to the euro, (ii) losses associated with decreases in market interest rates in the euro, Swiss franc and Hungarian forint markets, (iii) losses associated with increases in the values of the euro and Swiss franc relative to the U.S. dollar and (iv) a gain associated with a decrease in the value of the Chilean peso relative to the U.S. dollar. The loss during the 2009 nine-month period primarily is attributable to the net effect of (i) losses associated with increases in the values of the Chilean peso, euro and Swiss franc relative to the U.S. dollar, (ii) losses associated with decreases in market interest rates in the euro, Swiss franc, Romanian lei and Hungarian forint markets and (iii) losses associated with increases in the value of the Chilean peso relative to the euro. In addition, the losses for the three and nine months ended September 30, 2009 include a gain of €7.9 million and a loss of €0.5 million, respectively, resulting from changes in our credit risk valuation adjustments, as further described in notes 5 and 6 to our condensed consolidated financial statements. The loss during the 2008 three-month period primarily is attributable to the net effect of (i) losses associated with decreases in market interest rates in all relevant currencies, (ii) gains associated with a decrease in value of the euro and the Chilean peso relative to the U.S. dollar, (iii) gains associated with decreases in the values of the Chilean peso, Polish zloty, Czech koruna and Hungarian forint relative to the euro and (iv) losses associated with an increase in the Swiss franc relative to the euro. The loss during the 2008 nine-month period primarily is attributable to the net effect of (i) losses associated with an increase in the value of the Hungarian forint, Swiss franc, Czech koruna, Polish zloty and Slovakian koruna relative to the euro, (ii) gains associated with a decrease in the value of the Chilean peso and the euro relative to the U.S. dollar, (iii) gains associated with a decrease in the value of the Romanian lei relative to the euro and (iv) losses associated with a decrease in Swiss franc and U.S. dollar market interest rates. In addition, the losses for the three and nine months ended September 30, 2008 include gains of €23.0 million and €57.3 million, respectively, resulting from changes in our credit risk valuation adjustments, as further described in notes 5 and 6 to our condensed consolidated financial statements.

For additional information concerning our derivative instruments, see note 5 to our condensed consolidated financial statements.

### *Foreign currency transaction gains (losses), net*

Our foreign currency transaction gains (losses) primarily result from the remeasurement of monetary assets and liabilities that are denominated in currencies other than the underlying functional currency of the applicable entity. Unrealized foreign currency transaction gains (losses) are computed based on period-end exchange rates and are non-cash in nature until such time as the amounts are settled. The details of our foreign currency transaction gains (losses), net, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	in millions			
U.S. dollar denominated debt issued by a European subsidiary.....	€ 77.6	€ (145.1)	€ 90.7	€ (49.6)
U.S. dollar denominated debt issued by a Latin American subsidiary.....	(10.0)	(15.2)	52.5	(29.6)
Intercompany notes denominated in a currency other than the entity's functional currency (a).....	59.2	(34.8)	(25.0)	151.3
Cash and restricted cash denominated in a currency other than the entity's functional currency .....	(11.2)	17.3	(18.2)	(3.2)
Other.....	0.1	(1.7)	1.0	2.3
Total .....	<u>€ 115.7</u>	<u>€ (179.5)</u>	<u>€ 101.0</u>	<u>€ 71.2</u>

- (a) Amounts are related to (i) loans between our non-operating and operating subsidiaries in Europe, which generally are denominated in the currency of the applicable operating subsidiary and (ii) U.S. dollar denominated loans between certain of our non-operating subsidiaries. Accordingly, these gains (losses) are a function of movements of the euro against (a) the U.S. dollar and (b) other local currencies in Europe.

### *Losses on debt modifications*

We recognized losses on debt modifications of €0.7 million and €18.0 million during the three and nine months ended September 30, 2009, respectively. These losses include (i) losses of €14.3 million recognized in connection with the execution of Facilities S, T and U under the UPC Broadband Holding Bank Facility during the second quarter of 2009 and (ii) losses of €0.8 million and €3.8 million, respectively, recognized in connection with the April 2009 exchange of UPC Holding Senior Notes. For additional information, see note 8 to our condensed consolidated financial statements.

### *Income tax benefit (expense)*

We recognized income tax benefit (expense) of (€1.1 million) and €5.4 million during the three months ended September 30, 2009 and 2008, respectively.

The income tax expense for the three months ended September 30, 2009 differs from the expected income tax benefit of €44.5 million (based on the Dutch 25.5% income tax rate) due primarily to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible expenses and (ii) a net increase in valuation allowances established against currently arising deferred tax assets in certain tax jurisdictions.

The income tax benefit for the three months ended September 30, 2008 differs from the expected income tax benefit of €95.7 million (based on the Dutch 25.5% income tax rate) due primarily to the negative impacts of (i) a net increase in valuation allowances established against currently arising deferred tax assets in certain tax jurisdictions and (ii) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible expenses.

We recognized income tax benefit (expense) of €16.6 million and (€41.7 million) during the nine months ended September 30, 2009 and 2008, respectively.

The income tax benefit for the nine months ended September 30, 2009 differs from the expected income tax benefit of €204.5 million (based on the Dutch 25.5% income tax rate) due primarily to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible expenses, (ii) a net increase in valuation allowances established against currently arising deferred

tax assets in certain tax jurisdictions, (iii) differences in the statutory and local tax rates in certain jurisdictions in which we operate and (iv) a permanent difference associated with the impairment of goodwill in our Romanian reporting unit.

The income tax expense for the nine months ended September 30, 2008 differs from the expected income tax benefit of €119.2 million (based on the Dutch 25.5% income tax rate) due primarily to the negative impacts of (i) certain permanent differences between the financial and tax accounting treatment of interest and other nondeductible items, (ii) a net increase in valuation allowances established against currently arising deferred tax assets in certain tax jurisdictions and (iii) differences in the statutory and local tax rates in certain jurisdictions in which we operate.

#### *Loss from continuing operations*

During the three months ended September 30, 2009 and 2008, we reported losses from continuing operations of €175.6 million and €369.9 million, respectively, including (i) operating income of €149.0 million and €139.9 million, respectively, and (ii) non-operating expense of €323.5 million and €515.2 million, respectively. During the nine months ended September 30, 2009 and 2008, we reported losses from continuing operations of €785.5 million and €509.3 million, respectively, including (i) operating income of €329.1 million and €367.1 million, respectively, and (ii) non-operating expense of €1,131.2 million and €834.7 million, respectively. Gains or losses associated with (i) the disposition of assets, (ii) changes in the fair values of derivative instruments, investments and debt and (iii) movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve net earnings is largely dependent on our ability to increase the aggregate operating cash flow of our operating segments to a level that more than offsets the aggregate amount of our (a) stock-based compensation expense, (b) depreciation and amortization, (c) impairment, restructuring and other operating charges, net, (d) interest expense, (e) other net non-operating expenses and (f) income tax expenses.

Due largely to the fact that we seek to maintain our debt at levels that provide for attractive equity returns, as discussed under *Liquidity and Capital Resources – Capitalization* below, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning the reasons for changes in specific line items in our condensed consolidated statements of operations, see the discussion under *Discussion and Analysis of our Reportable Segments* and *Discussion and Analysis of our Consolidated Operating Results* above.

#### *Net earnings attributable to noncontrolling interests*

Net earnings attributable to noncontrolling interests increased €1.1 million and decreased €6.2 million during the three and nine months ended September 30, 2009, respectively, as compared to the corresponding prior year periods. These changes are primarily attributable to the results of operations of VTR.

### **Material Changes in Financial Condition**

#### ***Sources and Uses of Cash***

As a holding company, UPC Holding's primary assets are its investments in consolidated subsidiaries. UPC Holding's primary subsidiary is UPC Broadband Holding, which owns all of the operating subsidiaries that are consolidated by UPC Holding. Although our consolidated subsidiaries have generated cash from operating activities, the terms of the instruments governing the indebtedness of certain of these subsidiaries, including UPC Broadband Holding and VTR, may restrict our ability to access the assets of these subsidiaries. As set forth in the table below, these subsidiaries accounted for substantially all of our consolidated cash and cash equivalents at September 30, 2009. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax considerations, the presence of noncontrolling interests and other factors.

### *Cash and cash equivalents*

The details of the euro equivalent balances of our consolidated cash and cash equivalents at September 30, 2009 are set forth in the following table. With the exception of UPC Holding, which is reported on a stand-alone basis, the amounts presented below include the cash and cash equivalents of the named entity and its subsidiaries unless otherwise noted (in millions):

Cash and cash equivalents held by:	
UPC Holding .....	€ 0.2
VTR .....	45.4
UPC Broadband Holding (excluding VTR) .....	<u>33.8</u>
Total cash and cash equivalents .....	<u>€ 79.4</u>

### *Liquidity of UPC Holding*

As UPC Holding typically does not hold significant amounts of cash and cash equivalents at the parent level, UPC Holding's primary source of liquidity is proceeds received from UPC Broadband Holding (and indirectly from UPC Broadband Holding's subsidiaries) in the form of loans or distributions. As noted above, various factors may limit the ability of UPC Holding's direct and indirect subsidiaries to loan or distribute cash to UPC Holding. From time to time, UPC Holding may also supplement its sources of liquidity with net proceeds received in connection with the issuance of debt instruments.

The ongoing cash needs of UPC Holding include (i) corporate general and administrative expenses, (ii) interest payments on the UPC Holding Senior Notes and (iii) any net reimbursements required to be paid to LGI related to services performed or costs incurred by LGI on behalf of UPC Holding and its subsidiaries. From time to time, UPC Holding may also require cash in connection with (i) the repayment of outstanding debt (including net repayments to LGE Financing pursuant to the shareholder loan), (ii) the funding of loans or distributions to LGE Financing (and ultimately LGI and other LGI subsidiaries), (iii) the satisfaction of contingent liabilities, (iv) acquisitions or (v) other investment opportunities. No assurance can be given that any external funding would be available on favorable terms, or at all.

### *Liquidity of Subsidiaries*

The cash and cash equivalents of our significant subsidiaries are detailed in the table above. In addition to cash and cash equivalents, the primary sources of liquidity of our subsidiaries are cash provided by operations and, in the case of UPC Broadband Holding and VTR, borrowing availability under their respective debt instruments. For the details of the borrowing availability of such entities at September 30, 2009, see note 8 to our condensed consolidated financial statements. Our subsidiaries' liquidity generally is used to fund capital expenditures and debt service requirements. From time to time, our subsidiaries may also require funding in connection with (i) acquisitions and other investment opportunities, (ii) loans to UPC Holding and (iii) distributions to UPC Holding and other equity owners of UPC Holding's subsidiaries. No assurance can be given that any external funding would be available to our subsidiaries on favorable terms, or at all.

For a discussion of our consolidated capital expenditures and cash provided by operating activities, see the discussion under *Condensed Consolidated Cash Flow Statements* below.

### **Capitalization**

We seek to maintain our debt at levels that provide for attractive returns without assuming undue risk. In this regard, we strive to cause our operating subsidiaries to maintain their debt at levels that result in a consolidated debt balance that is between four and five times our consolidated operating cash flow. The ratio of our September 30, 2009 Senior Debt to Annualized EBITDA (last two quarters annualized) for UPC Holding, as defined and calculated in accordance with the UPC Broadband Holding Bank Facility was 3.81 to 1.00 and the ratio of our September 30, 2009 Total Debt to Annualized EBITDA (last two quarters annualized), as defined and calculated in accordance with the UPC Broadband Holding Bank Facility was 4.76 to 1.00.

When it is cost effective, we generally seek to match the denomination of the borrowings of our subsidiaries with the functional currency of the operations that are supporting the respective borrowings. As further discussed in note 5 to our condensed consolidated financial statements, we also use derivative instruments to mitigate foreign currency and interest rate risk associated with our debt instruments.

Our ability to service or refinance our debt and to maintain compliance with our leverage covenants is dependent primarily on our ability to maintain or increase the operating cash flow of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. In this regard, if the operating cash flow of UPC Broadband Holding were to decline, we could be required to repay or limit our borrowings under the UPC Broadband Holding Facility in order to maintain compliance with applicable covenants.

At September 30, 2009, our outstanding consolidated third-party debt and capital lease obligations aggregated €8,069.6 million, including €13.9 million that is classified as current in our condensed consolidated balance sheet and €8,050.2 million that is due in 2012 or thereafter. For additional information concerning the maturities of our debt and capital lease obligations, see note 8 to our condensed consolidated financial statements.

We believe that we have sufficient resources to repay or refinance the current portion of our debt and capital lease obligations and to fund our foreseeable liquidity requirements during the next 12 months. However, as our debt maturities grow in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. For information concerning certain 2009 refinancing transactions that have resulted in the extension of our and our subsidiaries' debt maturities, see note 8 to our condensed consolidated financial statements. No assurance can be given that we will be able to complete additional refinancing transactions or otherwise extend our debt maturities in light of current market conditions. In this regard, it is not possible to predict how the current state of the credit and equity markets and the associated difficult economic conditions will impact our future financial position. However, (i) additional financial institution failures could (a) reduce amounts available under committed credit facilities and (b) adversely impact our ability to access cash deposited with any failed financial institution and (ii) sustained or further tightening of the credit markets could adversely impact our ability to access debt financing on favorable terms, or at all. In addition, sustained or increased competition, particularly in combination with weakened economies, could adversely impact our cash flows and liquidity.

At September 30, 2009, €6,527.6 million of our third-party consolidated debt and capital lease obligations had been borrowed or incurred by our subsidiaries. For additional information concerning our debt balances, see note 8 to our condensed consolidated financial statements.

### ***Condensed Consolidated Cash Flow Statements***

*General.* Our reported cash flows are subject to significant variations due to FX. All of the cash flows discussed below are those of our continuing operations.

During the nine months ended September 30, 2009, we used net cash provided by our operating activities of €652.5 million and €30.7 million of our existing cash and cash equivalent balances (excluding a €0.4 million decrease due to changes in foreign currency exchange rates) to fund (i) net cash used by our investing activities of €532.0 million and (ii) net cash used by our financing activities of €151.2 million.

*Operating Activities.* Net cash provided by operating activities decreased €77.7 million, from €730.2 million during the first nine months of 2008 to €652.5 million during the first nine months of 2009. This decrease primarily is attributable to the net effect of (i) an increase in cash paid related to certain derivative instruments, (ii) lower cash payments for interest and (iii) an increase in the cash generated by our video, voice and broadband internet services on a local currency basis, that were more than offset by decreases attributable to FX.

*Investing Activities.* Net cash used by investing activities decreased €194.5 million, from €726.5 million during the first nine months of 2008 to €532.0 million during the first nine months of 2009. This decrease is primarily attributable to the net effect of (i) a decrease in cash paid in connection with acquisitions, net of cash acquired, of €40.9 million, (ii) the receipt of €118.5 million of proceeds upon the disposition of discontinued operations and (iii) a decrease in capital expenditures of €34.3 million, due in part to the impact of FX.

The UPC Broadband Division accounted for €557.9 million and €587.3 million of our consolidated capital expenditures during the nine months ended September 30, 2009 and 2008, respectively. The decrease in the capital expenditures of the UPC Broadband Division is due primarily to the net effect of (i) a decrease in expenditures for support capital such as information technology upgrades and general support systems, (ii) a decrease in expenditures for new build and upgrade projects to expand services, (iii) an increase in expenditures for the purchase and installation of customer premise equipment and (iv) a decrease due to FX.

VTR accounted for €91.2 million and €96.1 million of our consolidated capital expenditures during the nine months ended September 30, 2009 and 2008, respectively. The decrease in the capital expenditures of VTR is due primarily to the net effect of (i) a decrease due to FX, (ii) a decrease in expenditures for support capital such as



information technology upgrades and general support systems, (iii) an increase in expenditures for the purchase and installation of customer premise equipment and (iv) an increase in expenditures for new build and upgrade projects.

We expect that the UPC Broadband Division's full year capital expenditures will range from 24% to 25% of the UPC Broadband Division's full year 2009 revenue, which is an increase from our previously-reported range of 22% to 24%. This increase is largely due to higher than expected expenditures for digital cable set-top boxes. We continue to expect, as originally disclosed in our 2008 annual financial statements, that the percentage of revenue represented by the full year 2009 capital expenditures (including capital lease additions) will range from 20% to 22% for VTR.

*Financing Activities.* Net cash used by financing activities increased €48.1 million, from €103.1 million during the first nine months of 2008 to €151.2 million during the first nine months of 2009. This increase primarily is attributable to the net effect of (i) a €527.4 million decrease in net repayments of the shareholder loan and (ii) a €510.7 million decrease in cash provided by net borrowings of debt. The decrease in net borrowings is due in part to the impact of FX.

### ***Off Balance Sheet Arrangements***

In the ordinary course of business, we have provided indemnifications to purchasers of certain of our assets, our lenders, our vendors and certain other parties. In addition, we have provided performance and/or financial guarantees to local municipalities, our customers and vendors. Historically, these arrangements have not resulted in our company making any material payments and we do not believe that they will result in material payments in the future.