

**UPC HOLDING B.V.**

**Condensed Consolidated Financial Statements**  
**June 30, 2011**

**UPC Holding B.V.**  
**Boeing Avenue 53**  
**1119PE, Schiphol-Rijk**  
**The Netherlands**

**UPC Holding B.V.**

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

	<b>June 30, 2011</b>		<b>December 31, 2010</b>	
	<b>in millions</b>			
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents .....	€	216.7	€	123.1
Trade receivables, net .....		290.8		420.5
Deferred income taxes .....		41.3		61.1
Derivative instruments (note 4) .....		40.7		67.8
Prepaid expenses .....		44.8		35.3
Other current assets (note 11) .....		51.8		56.1
Total current assets .....		686.1		763.9
Investments (including €31.5 million and €30.1 million, respectively, measured at fair value) (note 3) .....		33.6		32.6
Property and equipment, net (note 6) .....		4,079.6		4,055.4
Goodwill (note 6) .....		5,244.9		5,192.8
Intangible assets subject to amortization, net (note 6) .....		296.3		343.9
Other assets, net (note 4) .....		410.2		424.2
Total assets .....	€	10,750.7	€	10,812.8

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

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

	June 30, 2011	December 31, 2010
	in millions	
LIABILITIES AND OWNERS' DEFICIT		
Current liabilities:		
Accounts payable (note 11) .....	€ 215.8	€ 229.8
Deferred revenue and advance payments from subscribers and others .....	325.1	452.8
Current portion of debt and capital lease obligations (note 7).....	23.7	2.5
Derivative instruments (note 4) .....	386.7	351.6
Accrued interest .....	113.1	102.9
Other accrued liabilities (note 11) .....	518.7	520.1
Total current liabilities .....	1,583.1	1,659.7
Long-term debt and capital lease obligations (note 7):		
Third party .....	8,177.0	7,995.9
Related party .....	8,210.9	8,511.4
Derivative instruments (note 4).....	1,330.4	1,276.6
Other long-term liabilities (note 11).....	497.3	139.5
Total liabilities .....	19,798.7	19,583.1
Commitments and contingencies (notes 4 and 12)		
Owners' deficit (note 9):		
Parent's deficit:		
Distributions and accumulated losses in excess of contributions .....	(9,729.1)	(9,441.7)
Accumulated other comprehensive earnings, net of taxes .....	521.0	494.0
Total parent's deficit.....	(9,208.1)	(8,947.7)
Noncontrolling interests.....	160.1	177.4
Total owners' deficit.....	(9,048.0)	(8,770.3)
Total liabilities and owners' deficit .....	€ 10,750.7	€ 10,812.8

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		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	in millions			
Revenue (note 11) .....	€ 994.5	€ 924.1	€ 1,971.0	€ 1,818.6
Operating costs and expenses:				
Operating (other than depreciation and amortization) (including stock-based compensation) (notes 10 and 11) .....	359.4	338.8	719.4	667.9
Selling, general and administrative (SG&A) (including stock- based compensation) (notes 10 and 11) .....	163.3	158.8	321.3	306.0
Related-party fees and allocations, net (note 11) .....	3.3	(0.2)	4.8	8.1
Depreciation and amortization .....	240.0	244.8	479.7	490.7
Impairment, restructuring and other operating charges, net .....	1.3	3.9	3.6	5.8
	<u>767.3</u>	<u>746.1</u>	<u>1,528.8</u>	<u>1,478.5</u>
Operating income .....	<u>227.2</u>	<u>178.0</u>	<u>442.2</u>	<u>340.1</u>
Non-operating income (expense):				
Interest expense:				
Third party .....	(126.7)	(111.4)	(245.3)	(223.1)
Related party (note 11) .....	(161.4)	(101.7)	(328.8)	(200.3)
Interest income .....	1.1	0.5	2.0	3.2
Realized and unrealized losses on derivative instruments, net (note 4) .....	(319.5)	(26.0)	(278.7)	(311.7)
Foreign currency transaction gains (losses), net .....	94.2	(274.9)	200.7	(285.0)
Gains (losses) on debt modification and extinguishment, net (note 7) .....	(0.1)	(2.3)	(11.4)	1.1
Other expense, net .....	(0.7)	(1.4)	(0.3)	(2.2)
	<u>(513.1)</u>	<u>(517.2)</u>	<u>(661.8)</u>	<u>(1,018.0)</u>
Loss before income taxes .....	<u>(285.9)</u>	<u>(339.2)</u>	<u>(219.6)</u>	<u>(677.9)</u>
Income tax expense (note 8) .....	(25.3)	(23.8)	(44.9)	(34.7)
Net loss .....	<u>(311.2)</u>	<u>(363.0)</u>	<u>(264.5)</u>	<u>(712.6)</u>
Net earnings attributable to noncontrolling interests .....	(5.3)	(5.8)	(12.9)	(9.2)
Net loss attributable to parent .....	<u>€ (316.5)</u>	<u>€ (368.8)</u>	<u>€ (277.4)</u>	<u>€ (721.8)</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		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	in millions			
Net loss .....	€ (311.2)	€ (363.0)	€ (264.5)	€ (712.6)
Other comprehensive earnings, net of taxes:				
Foreign currency translation adjustments .....	157.4	246.2	18.0	321.1
Other .....	0.5	0.5	0.2	(0.9)
Other comprehensive earnings .....	157.9	246.7	18.2	320.2
Comprehensive loss .....	(153.3)	(116.3)	(246.3)	(392.4)
Comprehensive earnings attributable to noncontrolling interests .....	(6.3)	(11.7)	(3.9)	(18.1)
Comprehensive loss attributable to parent .....	€ (159.6)	€ (128.0)	€ (250.2)	€ (410.5)

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

**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 earnings, net of taxes	Total parent's deficit	Non- controlling interests	Total owners' deficit
	in millions				
Balance at January 1, 2011.....	€ (9,441.7)	€ 494.0	€ (8,947.7)	€ 177.4	€ (8,770.3)
Net loss .....	(277.4)	—	(277.4)	12.9	(264.5)
Other comprehensive earnings, net of taxes .....	—	27.2	27.2	(9.0)	18.2
Stock-based compensation (note 10) .....	6.3	—	6.3	—	6.3
Distributions by subsidiaries to noncontrolling interest owners (note 9) .....	—	—	—	(21.2)	(21.2)
Capital charge in connection with exercise of LGI stock incentive awards (notes 10 and 11).....	(17.7)	—	(17.7)	—	(17.7)
Adjustments due to changes in subsidiaries' equity and other, net.....	1.4	(0.2)	1.2		1.2
Balance at June 30, 2011.....	<u>€ (9,729.1)</u>	<u>€ 521.0</u>	<u>€ (9,208.1)</u>	<u>€ 160.1</u>	<u>€ (9,048.0)</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)**

	Six months ended	
	June 30,	
	2011	2010
	in millions	
Cash flows from operating activities:		
Net loss.....	€ (264.5)	€ (712.6)
Adjustments to reconcile loss to net cash provided by operating activities:		
Stock-based compensation expense.....	6.6	10.5
Related-party fees and allocations, net.....	4.8	8.1
Depreciation and amortization.....	479.7	490.7
Impairment, restructuring and other operating charges, net.....	3.6	5.8
Non-cash interest on shareholder loan.....	328.8	200.3
Amortization of deferred financing costs and non-cash interest accretion.....	8.8	11.7
Realized and unrealized losses on derivative instruments, net.....	278.7	311.7
Foreign currency transaction losses (gains), net.....	(200.7)	285.0
Losses (gains) on debt modification and extinguishment, net.....	11.4	(1.1)
Deferred income tax expense.....	31.8	28.0
Changes in operating assets and liabilities, net of the effects of acquisitions and dispositions.....	(143.8)	(62.3)
Net cash provided by operating activities.....	<u>545.2</u>	<u>575.8</u>
Cash flows from investing activities:		
Capital expenditures.....	(409.1)	(392.1)
Cash paid in connection with acquisitions, net of cash acquired.....	(47.9)	—
Proceeds from sale of investments and other assets.....	15.0	—
Other investing activities, net.....	(3.7)	(0.9)
Net cash used by investing activities.....	€ (445.7)	€ (393.0)

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



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

	Six months ended June 30,	
	2011	2010
	in millions	
Cash flows from financing activities:		
Borrowings of third-party debt.....	€ 1,838.1	€ 797.0
Repayments and repurchases of third-party debt and capital lease obligations.....	(1,487.2)	(872.5)
Net repayment of shareholder loan .....	(323.4)	(35.9)
Payment of financing costs and debt premiums.....	(9.6)	(17.6)
Other financing activities, net .....	(15.6)	(13.6)
Net cash provided (used) by financing activities.....	<u>2.3</u>	<u>(142.6)</u>
Effect of exchange rate changes on cash.....	<u>(8.2)</u>	<u>10.8</u>
Net increase in cash and cash equivalents .....	93.6	51.0
Cash and cash equivalents:		
Beginning of period .....	123.1	159.7
End of period .....	<u>€ 216.7</u>	<u>€ 210.7</u>
Cash paid for interest.....	<u>€ 235.0</u>	<u>€ 137.5</u>
Net cash paid for taxes .....	<u>€ 11.4</u>	<u>€ 3.8</u>

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

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements**  
**June 30, 2011**  
**(unaudited)**

**(1) Basis of Presentation**

UPC Holding B.V. (UPC Holding) is a wholly-owned subsidiary of Liberty Global Europe Holding BV (Liberty Global Europe). Liberty Global Europe is a 99.6%-owned subsidiary of UnitedGlobalCom, Inc. (UGC), which in turn is a wholly-owned subsidiary of Liberty Global, Inc. (LGI). UPC Holding is an international provider of video, broadband internet and telephony services, with consolidated broadband communications and/or direct-to-home satellite (DTH) operations at June 30, 2011 in nine European countries and in Chile. Our European broadband communications and DTH operations are collectively referred to as UPC Europe. Our broadband communications operations in Chile are provided through our 80%-owned subsidiary, VTR Global Com SA (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 predecessors and subsidiaries.

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 2010 annual report.

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 value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, useful lives of long-lived assets and stock-based compensation. Actual results could differ from those estimates.

Unless otherwise indicated, ownership percentages and convenience translations into euros are calculated as of June 30, 2011.

These condensed consolidated financial statements reflect our consideration of the accounting and disclosure implications of subsequent events through August 18, 2011, the date of issuance.

Certain prior period amounts have been reclassified to conform to the current year presentation, including certain cash outflows related to the payment of employee withholding taxes that are net settled upon the exercise of, or release of restrictions on, certain stock incentive awards, which cash outflows have been reclassified in our condensed consolidated cash flow statements from operating to financing activities.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**June 30, 2011**  
**(unaudited)**

**(2) Acquisition**

**Pending Acquisition**

*Aster.* On December 4, 2010, we reached an agreement to acquire 100% of the equity of Aster Sp. z.o.o. (Aster), a broadband communications provider in Poland, for an equity purchase price of PLN 870 million (€219 million). The equity purchase price, together with Aster's adjusted net debt at June 30, 2011 of PLN 1,495 million (€376 million), represents total consideration of PLN 2,365 million (€594 million) before direct acquisition costs. The equity purchase price is expected to be funded with available cash and cash equivalents. Closing of the Aster acquisition is subject to certain regulatory approvals.

**(3) Investments**

The details of our investments are set forth below:

<b><u>Accounting Method</u></b>	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>in millions</b>	
Fair value .....	€ 31.5	€ 30.1
Equity .....	1.6	2.0
Cost .....	0.5	0.5
Total .....	<u>€ 33.6</u>	<u>€ 32.6</u>

**(4) 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), the Chilean peso (CLP) and the British pound sterling (£). As we generally do not apply hedge accounting to our derivative instruments, changes in the fair values of our derivative instruments generally are recorded in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statements of operations. The following table provides details of the fair values of our derivative instrument assets and liabilities:

	<b>June 30, 2011</b>			<b>December 31, 2010</b>		
	<b>Current</b>	<b>Long-term (a)</b>	<b>Total</b>	<b>Current</b>	<b>Long-term (a)</b>	<b>Total</b>
	<b>in millions</b>					
<b>Assets:</b>						
Cross-currency and interest rate derivative contracts (b) .....	€ 37.3	€ 61.6	€ 98.9	€ 64.0	€ 73.2	€ 137.2
Foreign currency forward contracts ...	2.5	—	2.5	3.0	—	3.0
Embedded derivatives .....	0.9	0.5	1.4	0.8	0.7	1.5
Total .....	<u>€ 40.7</u>	<u>€ 62.1</u>	<u>€ 102.8</u>	<u>€ 67.8</u>	<u>€ 73.9</u>	<u>€ 141.7</u>
<b>Liabilities:</b>						
Cross-currency and interest rate derivative contracts (b) .....	€ 384.9	€ 1,302.6	€ 1,687.5	€ 347.4	€ 1,276.1	€ 1,623.5
Foreign currency forward contracts (b) .....	1.7	27.4	29.1	3.9	—	3.9
Embedded derivatives .....	0.1	0.4	0.5	0.3	0.5	0.8
Total .....	<u>€ 386.7</u>	<u>€ 1,330.4</u>	<u>€ 1,717.1</u>	<u>€ 351.6</u>	<u>€ 1,276.6</u>	<u>€ 1,628.2</u>

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

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**June 30, 2011**  
**(unaudited)**

- (b) We consider credit risk in our fair value assessments. As of June 30, 2011 and December 31, 2010, (i) the fair values of our cross-currency and interest rate derivative contracts that represented assets have been reduced by credit risk valuation adjustments aggregating €0.3 million and €7.1 million, respectively, and (ii) the fair values of our cross-currency, interest rate and foreign currency forward derivative contracts that represented liabilities have been reduced by credit risk valuation adjustments aggregating €153.7 million and €133.9 million, respectively. 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 changes in the credit risk valuation adjustments associated with our derivative instruments resulted in gains of €45.6 million and €27.0 million during the three and six months ended June 30, 2011, respectively, and gains of €24.1 million and €51.7 million during the three and six months ended June 30, 2010, respectively. These amounts are included in realized and unrealized losses on derivative instruments, net, in our condensed consolidated statements of operations. For further information concerning our fair value measurements, see note 5.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	in millions			
Cross-currency and interest rate derivative contracts .....	€ (295.1)	€ (17.0)	€ (251.0)	€ (307.7)
Foreign currency forward contracts .....	(24.7)	(6.5)	(28.4)	(3.3)
Embedded derivatives .....	0.3	(2.5)	0.7	(0.7)
Total.....	<u>€ (319.5)</u>	<u>€ (26.0)</u>	<u>€ (278.7)</u>	<u>€ (311.7)</u>

The net cash received or 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 objective of the derivative instrument and the classification of the applicable underlying cash flows. The classifications of these cash inflows (outflows) are as follows:

	Six months ended June 30,	
	2011	2010
	in millions	
Operating activities .....	€ (142.9)	€ (171.2)
Financing activities .....	0.4	(11.0)
Total.....	<u>€ (142.5)</u>	<u>€ (182.2)</u>

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**June 30, 2011**  
**(unaudited)**

***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 June 30, 2011, our exposure to credit risk included derivative assets with a fair value of €102.8 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 certain amounts owing between our company and an insolvent counterparty could be set-off, 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.

While we currently have no specific concerns about the creditworthiness of any particular counterparty, we cannot rule out the possibility that one or more of our counterparties could fail or otherwise be unable to meet its obligations to us. Any such instance could have an adverse effect on our cash flows, results of operations and financial condition.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**June 30, 2011**  
**(unaudited)**

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

*Cross-currency Swaps:*

The terms of our outstanding cross-currency swap contracts at June 30, 2011 are as follows:

<b>Subsidiary / Final maturity date (a)</b>	<b>Notional amount due from counterpart</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 Holding:				
April 2016 (b).....	\$ 400.0	CHF 441.8	9.88%	9.87%
UPC Broadband Holding BV (UPC Broadband Holding), a subsidiary of UPC Holding:				
December 2014 .....	€ 365.8	CZK 10,521.8	5.48%	5.56%
December 2014 — December 2016 .....	€ 60.0	CZK 1,703.1	5.50%	6.99%
July 2017 .....	€ 39.6	CZK 1,000.0	3.00%	3.75%
December 2014 .....	€ 260.0	HUF 75,570.0	5.50%	9.40%
December 2014 — December 2016 .....	€ 260.0	HUF 75,570.0	5.50%	10.56%
December 2016 .....	€ 150.0	HUF 43,367.5	5.50%	9.20%
July 2018 .....	€ 78.0	HUF 19,500.0	5.50%	9.15%
December 2014 .....	€ 400.5	PLN 1,605.6	5.50%	7.50%
December 2014 — December 2016 .....	€ 245.0	PLN 1,000.6	5.50%	9.03%
July 2017 .....	€ 82.0	PLN 318.0	3.00%	5.60%
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%
July 2015 .....	€ 123.8	CLP 86,500.0	2.50%	5.84%
December 2015 .....	€ 69.1	CLP 53,000.0	3.50%	5.75%
December 2016 .....	€ 31.9	RON 116.8	5.50%	12.14%
September 2012 .....	€ 229.1	CHF 355.8	6 mo. EURIBOR + 2.50%	6 mo. CHF LIBOR + 2.46%
December 2014 .....	€ 898.4	CHF 1,466.0	6 mo. EURIBOR + 1.68%	6 mo. CHF LIBOR + 1.94%
December 2014 — December 2016 .....	€ 360.4	CHF 589.0	6 mo. EURIBOR + 3.75%	6 mo. CHF LIBOR + 3.94%
January 2017 .....	€ 75.0	CHF 110.9	7.63%	6.98%
January 2020 .....	€ 175.0	CHF 258.6	7.63%	6.76%

- (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 June 30, 2011, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to June 30, 2011, we present a range of dates that represents the period covered by the applicable derivative instrument.
- (b) Unlike the other cross-currency swaps presented in this table, the UPC Holding cross-currency swap does not involve the exchange of notional amounts at the inception and maturity of the instrument. Accordingly, the only cash flows associated with this instrument are interest payments and receipts.

**UPC HOLDING B.V.**  
**Notes to Condensed Consolidated Financial Statements — (Continued)**  
**June 30, 2011**  
**(unaudited)**

*Cross-currency Interest Rate Swaps:*

The terms of our outstanding cross-currency interest rate swap contracts at June 30, 2011 are as follows:

<u>Subsidiary / Final maturity date (a)</u>	<u>Notional amount due from counterparty</u>		<u>Notional amount due to counterparty</u>	<u>Interest rate due from counterparty</u>	<u>Interest rate due to</u>
	in millions				
UPC Broadband Holding:					
March 2013 .....	\$	100.0	€ 75.4	6 mo. LIBOR + 2.00%	5.73%
December 2014 .....	\$	300.0	€ 226.5	6 mo. LIBOR + 1.75%	5.78%
December 2016 .....	\$	244.1	€ 179.3	6 mo. LIBOR + 3.50%	7.24%
March 2013 — July 2018.....	\$	100.0	€ 75.4	6 mo. LIBOR + 3.00%	6.97%
December 2014 — July 2018.....	\$	100.0	€ 75.4	6 mo. LIBOR + 1.75%	5.77%
December 2014 — July 2018.....	\$	200.0	€ 151.0	6 mo. LIBOR + 3.00%	7.31%
July 2018 .....	\$	425.0	€ 320.9	6 mo. LIBOR + 1.75%	5.76%
December 2016 .....	\$	292.0	RON 709.1	6 mo. LIBOR + 3.50%	14.01%
December 2014 .....	\$	340.0	CLP 181,322.0	6 mo. LIBOR + 1.75%	8.76%
December 2014 .....	€	134.2	CLP 107,800.0	6 mo. EURIBOR + 2.00%	10.00%
VTR:					
September 2014.....	\$	456.0	CLP 252,396.0	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 June 30, 2011, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to June 30, 2011, 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 June 30, 2011 are as follows:

<u>Subsidiary / Final maturity date (a)</u>	<u>Notional amount</u>	<u>Interest rate due from</u>	<u>Interest rate due to</u>
	<u>in millions</u>	<u>counterparty</u>	<u>counterparty</u>
UPC Broadband Holding:			
January 2012 .....	\$ 1,471.5	1 mo. LIBOR + 3.27%	6 mo. LIBOR + 3.16%
July 2020 .....	\$ 1,000.0	6.63%	6 mo. LIBOR + 3.03%
July 2011 .....	€ 100.0	1 mo. EURIBOR + 3.00%	6 mo. EURIBOR + 2.59%
January 2012 .....	€ 3,000.0	1 mo. EURIBOR + 3.70%	6 mo. EURIBOR + 3.38%
April 2012 .....	€ 555.0	6 mo. EURIBOR	3.32%
September 2012 .....	€ 500.0	3 mo. EURIBOR	2.96%
March 2013 .....	€ 75.4	6 mo. EURIBOR	4.24%
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%
December 2014 .....	€ 1,681.8	6 mo. EURIBOR	4.65%
April 2012 — December 2015 .....	€ 263.3	6 mo. EURIBOR	3.97%
January 2015 — December 2016 .....	€ 500.0	6 mo. EURIBOR	4.32%
January 2015 — January 2018 .....	€ 175.0	6 mo. EURIBOR	3.74%
January 2015 — July 2020 .....	€ 171.3	6 mo. EURIBOR	3.95%
July 2020 .....	€ 171.3	6 mo. EURIBOR	4.32%
July 2020 .....	€ 750.0	6.38%	6 mo. EURIBOR + 3.16%
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 1,668.5	6 mo. CHF LIBOR	3.50%
January 2015 — December 2016 .....	CHF 370.9	6 mo. CHF LIBOR	3.82%
January 2015 — January 2018 .....	CHF 400.0	6 mo. CHF LIBOR	2.51%
July 2013 .....	CLP 86,100.0	6.77%	6 mo. TAB
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 86,100.0	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 June 30, 2011, we present a single date that represents the applicable final maturity date. For derivative instruments that become effective subsequent to June 30, 2011, we present a range of dates that represents the period covered by the applicable derivative instrument.



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

Pursuant to its cross-currency option contracts, UPC Holding has the option to deliver U.S. dollars to the counterparty in exchange for Swiss francs at a fixed exchange rate of approximately 0.74 Swiss francs per one U.S. dollar, in the notional amounts listed below:

<u>Contract expiration date</u>	<u>Notional amount at June 30, 2011</u>	
	<u>in millions</u>	
October 2016 .....	\$	19.8
April 2017 .....	\$	19.8
October 2017 .....	\$	19.8
April 2018 .....	\$	419.8

***Foreign Currency Forwards***

The following table summarizes our outstanding foreign currency forward contracts at June 30, 2011:

<u>Subsidiary</u>	<u>Currency purchased forward</u>		<u>Currency sold forward</u>		<u>Maturity dates</u>
	in millions				
UPC Holding .....	\$	479.0	CHF	415.1	October 2016 — April 2018
UPC Broadband Holding.....	RON	53.3	€	12.9	July 2011
UPC Broadband Holding.....	PLN	77.5	€	19.6	July 2011
UPC Broadband Holding.....	CHF	79.0	€	62.4	July 2011
UPC Broadband Holding.....	CZK	234.6	€	9.7	July 2011
UPC Broadband Holding.....	HUF	6,260.0	€	23.4	July 2011
UPC Broadband Holding.....	€	0.6	HUF	180.9	July 2011 — December 2011
UPC Broadband Holding.....	€	2.1	PLN	8.4	July 2011 — December 2011
UPC Broadband Holding.....	€	0.5	CZK	12.2	July 2011 — December 2011
UPC Broadband Holding.....	£	1.0	€	1.2	July 2011 — December 2011
UPC Broadband Holding.....	€	3.2	CHF	4.1	July 2011 — June 2012
VTR .....	\$	39.5	CLP	19,452.4	July 2011 — June 2012

**(5) 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 investments and derivative instruments as of June 30, 2011 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 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.

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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. The midpoints of applicable bid and ask ranges generally are used as inputs for our internal valuations.

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 4, 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 discounted cash flow models. Most of the inputs to these discounted 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. We incorporate 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 4.

Fair value measurements are also used in connection with nonrecurring valuations performed in connection with impairment assessments and acquisition accounting. These nonrecurring valuations include the valuation of reporting units, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of private reporting units is based at least in part on discounted cash flow analyses. With the exception of certain inputs in our discount rate assumptions 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. The valuation of customer relationships is primarily based on an excess earnings methodology, which is a form of a discounted cash flow analysis. The excess earnings methodology requires us to estimate the specific cash flows expected from the customer relationship, considering such factors as estimated customer life, the revenue expected to be generated over the life of the customer, contributory asset charges, and other factors. Tangible assets are typically valued using a replacement or reproduction cost approach, considering factors such as current prices of the same or similar equipment, the age of the equipment and economic obsolescence. The implied value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination, with the residual amount allocated to goodwill. All of our nonrecurring valuations use significant unobservable inputs and therefore fall under Level 3 of the fair value hierarchy. During 2010, we performed nonrecurring fair value measurements in connection with goodwill impairment assessments.

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

<u>Description</u>	<u>June 30, 2011</u>	<u>Fair value measurements at June 30, 2011 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<u>in millions</u>	
Assets:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts .....	€ 98.9	€ 98.9	€ —
Foreign currency forward contracts .....	2.5	2.5	—
Embedded derivatives .....	1.4	1.4	—
Total derivative instruments .....	102.8	102.8	—
Investments .....	31.5	—	31.5
Total assets .....	€ 134.3	€ 102.8	€ 31.5

Liabilities - derivative instruments:

Cross-currency and interest rate derivative contracts .....	€ 1,687.5	€ 1,687.5	€ —
Foreign currency forward contracts .....	29.1	29.1	—
Embedded derivatives .....	0.5	0.5	—
Total liabilities - derivatives instruments.....	€ 1,717.1	€ 1,717.1	€ —

<u>Description</u>	<u>December 31, 2010</u>	<u>Fair value measurements at December 31, 2010 using:</u>	
		<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<u>in millions</u>	
Assets:			
Derivative instruments:			
Cross-currency and interest rate derivative contracts .....	€ 137.2	€ 137.2	€ —
Foreign currency forward contracts .....	3.0	3.0	—
Embedded derivatives .....	1.5	1.5	—
Total derivative instruments .....	141.7	141.7	—
Investments .....	30.1	—	30.1
Total assets .....	€ 171.8	€ 141.7	€ 30.1

Liabilities - derivatives instruments:

Cross-currency and interest rate derivative contracts .....	€ 1,623.5	€ 1,623.5	€ —
Foreign currency forward contracts .....	3.9	3.9	—
Embedded derivatives .....	0.8	0.8	—
Total liabilities - derivative instruments .....	€ 1,628.2	€ 1,628.2	€ —

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

Balance at January 1, 2011 .....	€	30.1
Gains included in net loss - other expense, net (a) .....		0.8
Foreign currency translation adjustments and other .....		0.6
Balance at June 30, 2011 .....	€	<u>31.5</u>

- (a) All of the net gains recognized during the first six months of 2011 relate to investments that we continue to carry on our condensed consolidated balance sheet as of June 30, 2011.

**(6) Long-lived Assets**

***Property and Equipment, Net***

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

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>in millions</b>	
Distribution systems .....	€ 7,639.7	€ 7,213.1
Support equipment, buildings and land .....	1,193.8	1,132.2
	8,833.5	8,345.3
Accumulated depreciation .....	(4,753.9)	(4,289.9)
Total property and equipment, net .....	€ 4,079.6	€ 4,055.4

During the six months ended June 30, 2011 and 2010, we recorded non-cash increases to our property and equipment of €18.2 million and €2.9 million, respectively, as a result of assets acquired under capital lease and, during the 2011 period, vendor financing arrangements.

***Goodwill***

Changes in the carrying amount of our goodwill during the six months ended June 30, 2011 are set forth below:

	<b>January 1, 2011</b>	<b>Acquisitions and related adjustments</b>	<b>Foreign currency translation adjustments and other</b>	<b>June 30, 2011</b>
	<b>in millions</b>			
UPC Europe:				
The Netherlands .....	€ 912.1	€ —	€ —	€ 912.1
Switzerland .....	2,276.4	(0.1)	49.5	2,325.8
Other Western Europe .....	781.6	—	—	781.6
Total Western Europe .....	3,970.1	(0.1)	49.5	4,019.5
Central and Eastern Europe .....	795.8	13.9	22.0	831.7
Total UPC Europe .....	4,765.9	13.8	71.5	4,851.2
VTR (Chile) .....	426.9	—	(33.2)	393.7
Total .....	€ 5,192.8	€ 13.8	€ 38.3	€ 5,244.9

As of our October 1, 2010 goodwill impairment test date, our broadband communications reporting units in Hungary and the

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Czech Republic each had an excess of fair value over carrying value of less than 20%. As of June 30, 2011, these reporting units had goodwill aggregating €643.2 million. If, among other factors, (i) LGI's equity value declines significantly or (ii) the adverse impacts of economic, competitive or regulatory factors are worse than anticipated, we could conclude in future periods that further impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

At June 30, 2011 and December 31, 2010 and based on exchange rates as of those dates, the amount of our accumulated goodwill impairments was €183.5 million and €181.5 million, respectively. These amounts include accumulated impairments related to our broadband communications operations in Romania, which is included within UPC Europe's Central and Eastern Europe segment.

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

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

	<u>June 30 2011</u>	<u>December 31 2010</u>
	<u>in millions</u>	
<b>Gross carrying amount:</b>		
Customer relationships.....	€ 996.4	€ 1,055.5
Other .....	2.9	4.0
	<u>€ 999.3</u>	<u>€ 1,059.5</u>
<b>Accumulated amortization:</b>		
Customer relationships.....	€ (700.8)	€ (712.6)
Other .....	(2.2)	(3.0)
	<u>€ (703.0)</u>	<u>€ (715.6)</u>
<b>Net carrying amount:</b>		
Customer relationships.....	€ 295.6	€ 342.9
Other .....	0.7	1.0
	<u>€ 296.3</u>	<u>€ 343.9</u>

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

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

	June 30, 2011				Estimated fair value (c)		Carrying value (d)	
	Weighted average interest rate (a)	Unused borrowing capacity (b)			June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
					in millions			
Debt:								
Parent:								
Shareholder loan .....	7.75%	€ —	(e)	(e)	€ 8,210.9	€ 8,511.4		
UPC Holding Senior Notes.....	8.90%	— €	1,697.3	€ 1,737.9	1,574.9	1,595.1		
Subsidiaries:								
UPC Broadband Holding								
Bank Facility .....	4.41%	470.8 €	4,560.6	€ 5,670.7	4,642.3	5,882.2		
UPCB SPE Notes (f).....	6.79%	— €	1,903.5	€ 529.1	1,935.3	496.0		
Other .....	4.13%	— €	20.9	€ 0.4	20.9	0.4		
Total debt .....	<u>6.79%</u>	<u>€ 470.8</u>			<u>16,384.3</u>	<u>16,485.1</u>		
Capital lease obligations .....					<u>27.3</u>	<u>24.7</u>		
Total debt and capital lease obligations .....					16,411.6	16,509.8		
Current maturities .....					(23.7)	(2.5)		
Long-term debt and capital lease obligations.....					<u>€ 16,387.9</u>	<u>€ 16,507.3</u>		

(a) Represents the weighted average interest rate in effect at June 30, 2011 for all borrowings outstanding pursuant to each debt instrument including any applicable margin. The interest rates presented represent stated rates and do not include the impact of our interest rate derivative agreements, deferred financing costs, original issue discounts or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments, original issue discounts and commitments fees, but excluding the impact of financing costs, our weighted average interest rate on our aggregate variable and fixed rate indebtedness was approximately 8.6% at June 30, 2011. For information concerning our derivative instruments, see note 4.

(b) Unused borrowing capacity represents the maximum availability under the applicable facility at June 30, 2011 without regard to covenant compliance calculations or other conditions precedent to borrowing. At June 30, 2011, the full amount of unused borrowing capacity was available to be borrowed under each of the respective facilities except as noted below. At June 30, 2011, our availability under the UPC Broadband Holding Bank Facility (as defined below) was limited to €128.9 million. When the June 30, 2011 compliance reporting requirements have been completed, we anticipate that our availability under the UPC Broadband Holding Bank Facility will be limited to €209.9 million.

(c) The estimated fair values of our debt instruments were determined using the average of the midpoint of applicable bid and ask prices or, when quoted market prices are unavailable or not considered indicative of fair value, discounted cash flow models. The discount rates used in the cash flow models are based on the estimated credit spread of the applicable 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.

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- (f) UPCB Finance Limited, UPCB Finance II Limited and UPCB Finance III Limited (together, the UPCB SPEs) are each special purpose financing companies created for the primary purposes of facilitating the offerings of €500.0 million principal amount of 7.625% senior secured notes, €750.0 million principal amount of 6.375% senior secured notes and \$1 billion (€689.2 million) principal amount of 6.625% senior secured notes (together, the UPCB SPE Notes), respectively. The UPCB SPEs are dependent on payments from UPC Financing Partnership (UPC Financing) under Facilities V, Y and Z of the UPC Broadband Holding Bank Facility (see below), in order to service their respective payment obligations under the UPCB SPE Notes. Although UPC Financing has no equity or voting interest in the UPCB SPEs, the Facility V, Y and Z loans create variable interests in the respective UPCB SPE for which UPC Financing is the primary beneficiary, as contemplated by U.S. GAAP. As such, UPC Financing and its parent entities, including UPC Holding, are required by the provisions of U.S. GAAP to consolidate the UPCB SPEs. As a result, the amounts outstanding under Facilities V, Y and Z eliminate in UPC Holding's consolidated financial statements.

***Shareholder Loan***

UPC Holding has an unsecured shareholder loan with its immediate parent, Liberty Global Europe Financing B.V. (LGE Financing), which, as amended, is scheduled to be repaid in 2030 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 until the end of each fiscal year and then it is transferred to the loan balance. The interest rate on the shareholder loan is reviewed annually, with any adjustment effective on January 1 of each year. The interest rate was 7.75% and 4.80% for the six months ended June 30, 2011 and 2010, respectively. The net decrease in the shareholder loan balance during the six months ended June 30, 2011 includes (i) cash payments of €967.4 million, (ii) cash borrowings of €644.0 million and (iii) a €22.9 million non-cash increase related to the settlement of intercompany charges and allocations. During the six months ended June 30, 2011 and 2010, none of the debt repayments were payments of interest.

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***UPC Broadband Holding Bank Facility***

The UPC Broadband Holding Bank Facility, as amended, is the senior secured credit facility of UPC Broadband Holding. The details of our borrowings under the UPC Broadband Holding Bank Facility as of June 30, 2011 are summarized in the following table:

Facility	Final maturity date	Interest rate	June 30, 2011		
			Facility amount (in borrowing currency) (a)	Unused borrowing capacity (b) in millions	Carrying value (c)
L (d) .....	July 3, 2012	EURIBOR + 2.25%	€ 129.7	€ —	€ 129.7
M .....	December 31, 2014	EURIBOR + 2.00%	€ 316.6	—	316.6
N .....	December 31, 2014	LIBOR + 1.75%	\$ 357.2	—	246.2
O .....	July 31, 2013	(e)	(e)	—	51.3
Q (d) .....	July 31, 2014	EURIBOR + 2.75%	€ 422.0	201.7	220.3
R .....	December 31, 2015	EURIBOR + 3.25%	€ 290.7	—	290.7
S .....	December 31, 2016	EURIBOR + 3.75%	€ 1,740.0	—	1,740.0
T .....	December 31, 2016	LIBOR + 3.50%	\$ 260.2	—	178.0
U .....	December 31, 2017	EURIBOR + 4.00%	€ 750.8	—	750.8
V (f) .....	January 15, 2020	7.625%	€ 500.0	—	500.0
W .....	March 31, 2015	EURIBOR + 3.00%	€ 269.1	269.1	—
X .....	December 31, 2017	LIBOR + 3.50%	\$ 1,042.8	—	718.7
Y (f) .....	July 1, 2020	6.375%	€ 750.0	—	750.0
Z (f) .....	July 1, 2020	6.625%	\$ 1,000.0	—	689.2
Elimination of Facilities V, Y and Z in consolidation (f) .....				—	(1,939.2)
Total .....				€ 470.8	€ 4,642.3

- (a) Represents total third-party facility amounts at June 30, 2011 without giving effect to the impact of discounts. Certain of the originally committed amounts under Facilities L, M and N have been novated to a subsidiary of UPC Broadband Holding and accordingly, such amounts are not included in the table above.
- (b) At June 30, 2011, our availability under the UPC Broadband Holding Bank Facility was limited to €128.9 million. When the June 30, 2011 compliance reporting requirements have been completed, we anticipate that our availability under the UPC Broadband Holding Bank Facility will be limited to €209.9 million. Facility Q has commitment fees on unused and uncanceled balances of 0.75% per year. Facility W has a commitment fee on unused and uncanceled balances of 1.2% per year.
- (c) The Facility T amount includes the impact of discounts.
- (d) Subsequent to June 30, 2011, certain of the commitments under Facilities L and Q were rolled into a new Facility AA. For additional information, see note 14.
- (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 (€22.4 million) sub-tranche and (ii) a PLN 115.1 million (€28.9 million) sub-tranche.
- (f) As described in note (f) to the prior table, the amounts outstanding under Facilities V, Y and Z eliminate in UPC Holding's consolidated financial statements. During the six months ended June 30, 2011, we recognized losses on debt



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extinguishments aggregating €11.3 million, representing the write-off of deferred financing costs and an unamortized discount in connection with the prepayment of amounts outstanding under Facilities M, P, T and U with proceeds from certain of the UPCB SPE Notes.

***Maturities of Debt and Capital Lease Obligations***

Maturities of our debt and capital lease obligations as of June 30, 2011 are presented below. Amounts presented below represent euro equivalents based on June 30, 2011 exchange rates:

*Debt:*

	<u>Third-party debt</u>	<u>Shareholder loan</u>	<u>Total</u>
		in millions	
Year ended December 31:			
2011 (remainder of year).....	€ 3.0	€ —	€ 3.0
2012 .....	147.2	—	147.2
2013 .....	51.6	—	51.6
2014 .....	783.1	—	783.1
2015 .....	290.7	—	290.7
2016 .....	2,219.4	—	2,219.4
Thereafter .....	4,724.3	8,210.9	12,935.2
Total debt maturities .....	8,219.3	8,210.9	16,430.2
Unamortized discount .....	(45.9)	—	(45.9)
Total debt .....	<u>€ 8,173.4</u>	<u>€ 8,210.9</u>	<u>€ 16,384.3</u>
Current portion .....	<u>€ 20.1</u>	<u>€ —</u>	<u>€ 20.1</u>
Noncurrent portion .....	<u>€ 8,153.3</u>	<u>€ 8,210.9</u>	<u>€ 16,364.2</u>

*Capital lease obligations (in millions):*

Year ended December 31:	
2011 (remainder of year).....	€ 4.4
2012 .....	4.2
2013 .....	3.1
2014 .....	2.6
2015 .....	2.6
2016 .....	2.5
Thereafter .....	23.9
	43.3
Amounts representing interest .....	(16.0)
Present value of net minimum lease payments .....	<u>€ 27.3</u>
Current portion .....	<u>€ 3.6</u>
Noncurrent portion .....	<u>€ 23.7</u>

***Non-cash Refinancing Transactions***

During the six months ended June 30, 2011 and 2010, certain of our refinancing transactions included non-cash borrowings and repayments of debt aggregating nil and €991.5 million, respectively.

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***Subsequent Events***

For information concerning certain financing transactions completed subsequent to June 30, 2011, see note 14.

**(8) Income Taxes**

Income tax expense attributable to our loss before income taxes differs from the amounts computed by applying the Dutch income tax rate of 25% for the 2011 periods and 25.5% for the 2010 periods, as a result of the following:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>in millions</b>			
Computed “expected” tax benefit.....	€ 71.5	€ 86.5	€ 54.9	€ 172.9
Non-deductible or non-taxable interest and other expenses.....	(34.8)	(16.4)	(69.4)	(29.1)
Change in valuation allowances .....	(55.7)	(85.3)	(22.3)	(170.0)
International rate differences .....	(3.2)	(0.8)	(1.8)	(2.1)
Other, net .....	(3.1)	(7.8)	(6.3)	(6.4)
Total.....	<u>€ (25.3)</u>	<u>€ (23.8)</u>	<u>€ (44.9)</u>	<u>€ (34.7)</u>

As of June 30, 2011, our unrecognized tax benefits of €30.4 million included €10.5 million of tax benefits that would have a favorable impact on our effective income tax rate if ultimately recognized, after considering amounts that we would expect to be offset by valuation allowances. During the next twelve months, it is reasonably possible that the resolution of currently ongoing examinations by tax authorities could result in changes to our unrecognized tax benefits related to tax positions taken as of June 30, 2011. We do not expect that any such changes will have a material impact on our unrecognized tax benefits. No assurance can be given as to the nature or impact of any other changes in our unrecognized tax positions during the remainder of 2011.

**(9) Owners' Deficit**

*VTR.* On March 24, 2011, we and the 20% noncontrolling interest owner in VTR (the VTR NCI Owner) approved a distribution of CLP 58.5 billion (€85.9 million at the approval date). The VTR NCI Owner's share of this distribution is CLP 11.7 billion (€17.2 million at the approval date). Through June 30, 2011, CLP 53.2 billion (€78.8 million at the average rate for the period) of the approved distribution had been paid and the remaining amount was paid in July 2011.

**(10) 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 LGI stock incentive awards held by certain employees of our subsidiaries. Stock-based compensation expense allocated to our company by LGI is reflected as a decrease to 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:

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	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
	U.S. dollar	Euro equivalent	U.S. dollar	Euro equivalent	U.S. dollar	Euro equivalent	U.S. dollar	Euro equivalent
	in millions							
LGI common stock:								
LGI performance-based incentive awards (a) .....	\$ 1.9	€ 1.3	\$ 2.8	€ 2.2	\$ 3.4	€ 2.4	\$ 6.1	€ 4.6
Other LGI stock-based incentive awards .....	2.9	2.0	3.2	2.5	5.6	4.0	6.0	4.5
Total LGI common stock....	4.8	3.3	6.0	4.7	9.0	6.4	12.1	9.1
Other.....	(0.1)	—	1.4	1.1	0.2	0.2	1.8	1.4
Total.....	<u>\$ 4.7</u>	<u>€ 3.3</u>	<u>\$ 7.4</u>	<u>€ 5.8</u>	<u>\$ 9.2</u>	<u>€ 6.6</u>	<u>\$ 13.9</u>	<u>€ 10.5</u>
Included in:								
Operating expense .....	\$ 0.4	€ 0.3	\$ 1.0	€ 0.8	\$ 0.8	€ 0.6	\$ 1.7	€ 1.3
SG&A expense .....	4.3	3.0	6.4	5.0	8.4	6.0	12.2	9.2
Total.....	<u>\$ 4.7</u>	<u>€ 3.3</u>	<u>\$ 7.4</u>	<u>€ 5.8</u>	<u>\$ 9.2</u>	<u>€ 6.6</u>	<u>\$ 13.9</u>	<u>€ 10.5</u>

- (a) Includes stock-based compensation expense related to LGI's five-year performance-based incentive plans for LGI's senior executives and certain key employees (the LGI Performance Plans) and LGI performance-based restricted share units (PSUs). Compensation expense associated with awards granted pursuant to the LGI Performance 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 previously has elected to cash settle a portion of such awards.

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 June 30, 2011:

	LGI common stock (a)		LGI Performance Plans (b)		LGI PSUs (c)	
	U.S. \$	Euro equivalent (d)	U.S. \$	Euro equivalent (d)	U.S. \$	Euro equivalent (d)
Total compensation expense not yet recognized (in millions).....	<u>\$ 26.2</u>	<u>€ 18.1</u>	<u>\$ 0.2</u>	<u>€ 0.1</u>	<u>\$ 11.3</u>	<u>€ 7.8</u>
Weighted average period remaining for expense recognition (in years).....	<u>3.0</u>		<u>0.3</u>		<u>1.8</u>	

- (a) Amounts relate to the Liberty Global, Inc. 2005 Incentive Plan (as amended and restated October 31, 2006) (the LGI Incentive Plan). The LGI Incentive Plan had 11,574,053 shares available for grant as of June 30, 2011. These shares may be awarded at or above fair value in any series of LGI's common stock.
- (b) Includes unvested compensation expense under the LGI Performance Plans.
- (c) Represents unvested compensation expense related to PSUs granted in 2011 and 2010.
- (d) Convenience translations into euros are calculated as of June 30, 2011.

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The following table summarizes certain information related to the incentive awards granted and exercised with respect to LGI common stock:

	Six months ended June 30,	
	2011	2010
Assumptions used to estimate fair value of options and stock appreciation rights (SARs) granted:		
Risk-free interest rate .....	0.93 - 1.42%	1.26 - 2.53%
Expected life .....	3.4 - 3.7 years	3.4 - 4.9 years
Expected volatility .....	40.7 - 41.8%	42.1 - 45.5%
Expected dividend yield .....	none	none
Weighted average grant-date fair value per share of awards granted:		
SARs .....	\$ 14.28	\$ 9.28
Restricted shares and restricted share units .....	\$ 45.14	\$ 24.81
PSUs .....	\$ 39.98	\$ 27.67
Total intrinsic value of awards exercised (in millions):		
Options .....	\$ 0.6	\$ 0.1
SARs .....	\$ 11.7	\$ 4.8
Cash received by LGI from exercise of options (in millions) .....	\$ 1.7	\$ 0.5
Income tax benefit related to stock-based compensation (in millions) .....	\$ —	\$ 0.3

***LGI PSUs***

In March 2011, the compensation committee of LGI's board of directors granted to LGI's executive officers and certain key employees a total of 513,268 LGI Series A PSUs and 513,268 LGI Series C PSUs (including 141,934 and 141,934 respectively, granted to employees of our subsidiaries) pursuant to the LGI Incentive Plan. Each PSU represents the right to receive one share of Series A common stock or Series C common stock, as applicable, subject to performance and vesting. The performance period for these PSUs (the 2011 PSUs) ends on December 31, 2012. The performance target selected by the committee is the achievement of an "OCF CAGR" of approximately 4.5% for the two-year performance period (2012 compared to 2010), subject to upward or downward adjustment for certain events in accordance with the terms of the grant agreement. "OCF CAGR" represents the compound annual growth rate (CAGR) in consolidated operating cash flow (see note 13), adjusted for events such as acquisitions, dispositions and changes in foreign currency exchange rates that affect comparability. A performance range of 75% to 125% of the target OCF CAGR would generally result in award recipients earning 50% to 150% of their 2011 PSUs, subject to reduction or forfeiture based on individual performance. One-half of the earned 2011 PSUs will vest on March 31, 2013 and the balance will vest on September 30, 2013. The compensation committee of LGI's board of directors also established a base performance objective of 50% of the target OCF CAGR, subject to certain limited adjustments, which must be satisfied in order for award recipients to be eligible to earn any of their 2011 PSUs. Compensation costs attributable to the 2011 PSUs will be recognized over the requisite service period of the awards.

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***Stock Award Activity - LGI Common Stock***

The following tables summarize the stock award activity during the six months ended June 30, 2011 with respect to LGI common stock held by employees of our subsidiaries:

<b><u>Options — LGI Series A common stock:</u></b>	<b>Number of shares</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual term in years</b>	<b>Aggregate intrinsic value in millions</b>
Outstanding at January 1, 2011 .....	60,504	\$ 26.70		
Exercised .....	(28,784)	\$ 31.12		
Outstanding and exercisable at June 30, 2011 .....	<u>31,720</u>	<u>\$ 22.68</u>	<u>1.8</u>	<u>\$ 0.7</u>

<b><u>Options — LGI Series C common stock:</u></b>	<b>Number of shares</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual term in years</b>	<b>Aggregate intrinsic value in millions</b>
Outstanding at January 1, 2011 .....	60,504	\$ 25.21		
Exercised .....	(28,784)	\$ 29.12		
Outstanding and exercisable at June 30, 2011 .....	<u>31,720</u>	<u>\$ 21.66</u>	<u>1.8</u>	<u>\$ 0.7</u>

<b><u>SARs — LGI Series A common stock:</u></b>	<b>Number of shares</b>	<b>Weighted average base price</b>	<b>Weighted average remaining contractual term in years</b>	<b>Aggregate intrinsic value in millions</b>
Outstanding at January 1, 2011 .....	995,855	\$ 20.40		
Granted .....	356,672	\$ 46.36		
Transfers, net .....	39,807	\$ 21.32		
Forfeited .....	(112,622)	\$ 20.39		
Exercised .....	(262,359)	\$ 19.40		
Outstanding at June 30, 2011 .....	<u>1,017,353</u>	<u>\$ 29.80</u>	<u>5.5</u>	<u>\$ 14.8</u>
Exercisable at June 30, 2011 .....	<u>167,657</u>	<u>\$ 18.45</u>	<u>3.2</u>	<u>\$ 3.2</u>

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<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, 2011 .....	995,855	\$ 20.02		
Granted.....	356,672	\$ 44.25		
Transfers, net.....	42,620	\$ 20.79		
Forfeited.....	(112,622)	\$ 20.12		
Exercised.....	(293,181)	\$ 19.12		
Outstanding at June 30, 2011 .....	989,344	\$ 29.04	5.6	\$ 12.9
Exercisable at June 30, 2011 .....	139,648	\$ 17.22	3.6	\$ 2.4

<b><u>Restricted shares and share 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, 2011 .....	575,576	\$ 24.43	
Granted.....	52,736	\$ 46.18	
Transfers, net.....	5,251	\$ 25.47	
Forfeited.....	(31,317)	\$ 23.19	
Released from restrictions.....	(367,992)	\$ 24.95	
Outstanding at June 30, 2011 .....	234,254	\$ 28.70	2.0

<b><u>Restricted shares and share 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, 2011 .....	562,562	\$ 23.92	
Granted.....	52,736	\$ 44.07	
Transfers, net.....	5,251	\$ 24.96	
Forfeited.....	(31,065)	\$ 22.62	
Released from restrictions.....	(357,334)	\$ 24.44	
Outstanding at June 30, 2011 .....	232,150	\$ 27.90	2.0

<b><u>PSUs — 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, 2011 .....	134,988	\$ 27.64	
Granted.....	141,934	\$ 40.75	
Forfeited .....	(29,093)	\$ 27.64	
Outstanding at June 30, 2011 .....	247,829	\$ 35.15	1.6

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<b>PSUs — LGI Series C common stock:</b>	<b>Number of shares</b>	<b>Weighted average grant-date fair value per share</b>	<b>Weighted average remaining contractual term  in years</b>
Outstanding at January 1, 2011 .....	134,988	\$ 27.25	
Granted .....	141,934	\$ 39.21	
Forfeited .....	(29,093)	\$ 27.25	
Outstanding at June 30, 2011 .....	<u>247,829</u>	<u>\$ 34.10</u>	<u>1.6</u>

At June 30, 2011, total SARs outstanding included 35,544 LGI Series A common stock capped SARs and 35,544 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.

**(11) Related Party Transactions**

Our related party transactions consist of the following:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>in millions</b>			
Revenue .....	€ 2.4	€ 2.5	€ 4.6	€ 5.2
Operating expenses .....	(16.2)	(17.2)	(30.1)	(33.6)
SG&A expenses .....	0.8	(2.0)	0.2	(2.2)
Allocated stock-based compensation expense .....	(3.3)	(4.7)	(6.4)	(9.1)
Fees and allocations, net .....	(3.3)	0.2	(4.8)	(8.1)
Included in operating income .....	<u>(19.6)</u>	<u>(21.2)</u>	<u>(36.5)</u>	<u>(47.8)</u>
Interest expense .....	(161.4)	(101.7)	(328.8)	(200.3)
Included in net loss .....	<u>€ (181.0)</u>	<u>€ (122.9)</u>	<u>€ (365.3)</u>	<u>€ (248.1)</u>

*Revenue.* Amounts consist primarily of cash settled construction and programming services provided to our affiliates and, to a lesser extent, programming services provided to Chellomedia BV (Chellomedia) and cash settled backbone capacity provided to Unitymedia GmbH (Unitymedia), both of which are subsidiaries of LGI that are outside of UPC Holding.

*Operating expenses.* Amounts consist primarily of cash settled programming and digital interactive services provided by Chellomedia and, to a lesser extent, cash settled programming services provided by Pramer S.C.A., a subsidiary of LGI, in the aggregate amounts of €15.0 million and €14.9 million during the three months ended June 30, 2011 and 2010, respectively, and €29.2 million during each of the the six month periods ended June 30, 2011 and 2010. In addition, operating expenses include costs for cash settled programming and interconnect fees charged by certain of LGI's affiliates of €2.6 million and €2.3 million during the three months ended June 30, 2011 and 2010, respectively, and €4.9 million and €4.4 million during the six months ended June 30, 2011 and 2010, respectively. In addition, the 2011 amounts are net of (i) €0.3 million and €1.9 million, respectively, of cash settled network maintenance and encryption costs charged to Unitymedia, and (ii) €1.1 million and €2.1 million, respectively, of cash settled facilities and other operating expenses charged by VTR to VTR Wireless SA (VTR Wireless). VTR Wireless is constructing a mobile network in Chile that will be used in combination with other arrangements to provide mobile and broadband products.

*SG&A expenses.* Amounts consist of cash settled marketing and other administrative charges primarily between our company,

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Chellomedia and Liberty Global Europe BV (LG Europe). In addition, the 2011 amounts are net of €1.4 million during the three months ended June 30, 2011 and €1.6 million during the six months ended June 30, 2011, respectively, of cash settled SG&A expenses charged by VTR to VTR Wireless. (see note 13).

*Allocated stock-based compensation expense.* As further described in note 10, LGI allocates stock-based compensation to our company.

*Fees and allocations, net.* These amounts represent the aggregate net effect of charges between subsidiaries of UPC Holding and various LGI subsidiaries, including (i) aggregate charges from LG Europe and Liberty Global Europe Ltd. (LGE Ltd.) of €12.5 million and €11.4 million during the three months ended June 30, 2011 and 2010, and €25.6 million and €24.4 million during the six months ended June 30, 2011 and 2010, respectively, (ii) charges to Unitymedia of €5.5 million and €4.3 million during the three months ended June 30, 2011 and 2010, respectively, and €13.0 million and €8.6 million during the six months ended June 30, 2011 and 2010, respectively, and (iii) charges to LGI and certain other LGI subsidiaries of €3.7 million and €7.3 million during the three months ended June 30, 2011 and 2010, respectively, and €7.8 million and €7.7 million during the six months ended June 30, 2011 and 2010, respectively. These charges generally relate to management, finance, legal, technology and other corporate and administrative services provided to or by our subsidiaries and, in the case of charges to Unitymedia, also include charges related to marketing and other services that support Unitymedia's broadband communications operations. The amounts charged generally are based on the respective subsidiary's estimated share of the applicable costs incurred (including personnel, stock-based compensation and other costs related to the services provided) plus a mark-up. The quarterly charges 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. The annual revision to reflect actual costs for 2010 and 2009 amounted to decreases of €2.2 million and €2.8 million, respectively, in our billings to LGI and certain other LGI subsidiaries during the three months ended March 31, 2011 and 2010, respectively. Beginning on April 1, 2011, charges to Unitymedia (other than charges related to stock-based compensation) are expected to be cash settled.

*Interest expense.* Amount includes interest accrued on our 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 7.

Except as noted above, our intercompany transactions are typically loan settled. Depending on the nature of our intercompany transactions, the amount of the charges or allocations may be based on (i) estimated or allocated costs, (ii) estimated or allocated costs plus a mark-up or (iii) commercially negotiated rates. Although we believe that the intercompany charges and fees described above are reasonable, no assurance can be given that the related party 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 our related-party balances:

	<b>June 30, 2011</b>	<b>December 31, 2010</b>
	<b>in millions</b>	
Other current assets (a) .....	€ 29.8	€ 22.8
Accounts payable.....	€ 26.8	€ 17.0
Accrued liabilities .....	12.4	15.4
Other long-term liabilities (b).....	328.8	—
Shareholder loan (note 7) .....	8,210.9	8,511.4
Total.....	€ 8,578.9	€ 8,543.8

(a) Represents related-party receivables.

(b) Represents accrued interest on the shareholder loan. See note 7.



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**(12) Commitments and Contingencies**

***Commitments***

In the normal 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, satellite carriage commitments, purchases of customer premises equipment and other items. As of June 30, 2011, the euro equivalents (based on June 30, 2011 exchange rates) of such commitments that are not reflected in our condensed consolidated balance sheet are as follows:

	Payments due during:							Total
	Remainder of 2011	Year ending December 31,					Thereafter	
		2012	2013	2014	2015	2016		
		in millions						
Operating leases.....	€ 42.5	€ 51.0	€ 36.1	€ 24.8	€ 18.9	€ 12.6	€ 48.7	€ 234.6
Programming, satellite and other purchase obligations.....	113.0	69.8	41.3	24.7	26.7	12.9	11.0	299.4
Other commitments .....	10.5	15.6	10.8	7.4	7.3	7.0	43.7	102.3
Total.....	€ 166.0	€ 136.4	€ 88.2	€ 56.9	€ 52.9	€ 32.5	€ 103.4	€ 636.3

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems, or (iii) whether we discontinue our premium film or sports services. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the six months ended June 30, 2011 and 2010, our programming and copyright costs aggregated €233.9 million and €211.9 million, respectively. Satellite commitments consist of obligations associated with satellite carriage services provided to our company. Other purchase obligations include commitments to purchase customer premises equipment that are enforceable and legally binding on us.

Other commitments include certain fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities. Commitments arising from acquisition agreements, including the agreement to acquire Aster described in note 2, are not reflected in the above table.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information regarding our derivative instruments, including the net cash paid or received in connection with these instruments during the six months ended June 30, 2011 and 2010, see note 4.

We also have commitments pursuant to agreements with, and obligations imposed by, franchise authorities and municipalities, which may include obligations in certain markets to move aerial cable to underground ducts or to upgrade, rebuild or extend portions of our broadband distribution systems. Such amounts are not included in the above table because they are not fixed or determinable.

***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.

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

*The Netherlands Regulatory Developments.* During 2010, the Dutch National Regulatory Authority (OPTA) began a third 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. The third round of market analysis was completed in June 2011 when OPTA published its regulatory view on fixed telephony, television, internet access and business network services for the period from 2012 up to and including 2014. This market analysis included, among other matters, OPTA's draft assessment that, due primarily to an increase in competition, there are no grounds for further regulation of the television market at this time. The draft assessment is subject to national consultation until mid-August 2011. Shortly before the publication of this draft assessment, the Dutch Parliament adopted two amendments to legislation transposing amendments to EU telecoms rules. The amendments, which have not yet been adopted by the Dutch Senate, focus on facilitation of the resale of television services. We are of the opinion that these amendments are contrary to EU law.

*Chilean Antitrust Matter.* On December 12, 2006, Liberty Media Corporation (Liberty Media), the former parent company of the predecessor of LGI, 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 Intercom SA prohibiting VTR and its control group from participating, directly or indirectly through related persons, in Chilean satellite or microwave television businesses through April 2010. On March 19, 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. Although Liberty Media no longer owns an interest in DirecTV and Mr. Malone's voting interest in DirecTV has been reduced to less than 5%, the matter is still pending. We do not expect the ultimate resolution of this matter to have a material impact on our results of operations or financial condition.

*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, (iv) disputes over programming and copyright fees and (v) 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 results of operations or financial position.

**(13) Segment Reporting**

We own a variety of international subsidiaries that provide broadband communications services, and to a lesser extent, video programming services. We generally 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.

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

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charges or credits). Other operating charges or credits include (i) gains and losses on the disposition of long-lived assets, (ii) direct acquisition costs, such as third-party due diligence, legal and advisory costs, and (iii) other acquisition-related items, such as gains and losses on the settlement of contingent consideration. 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 before income taxes is presented below.

UPC Europe provides DTH services to customers in the Czech Republic, Hungary, Romania and Slovakia through a Luxembourg-based organization, which we refer to as “UPC DTH.” Beginning in the first quarter of 2011, UPC DTH is reported within UPC Europe's central and other category. Prior to this change, the UPC DTH operating results were reported within UPC Europe's Central and Eastern Europe segment. In addition, certain backbone costs incurred by UPC Europe were previously included in the operating expenses of UPC Europe's central and other category. Beginning in the first quarter of 2011, these backbone costs are included within the operating expenses of the applicable UPC Europe operating segment based on usage. Segment information for all periods presented has been restated to reflect the above-described changes.

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

- UPC Europe:
  - The Netherlands
  - Switzerland
  - Other Western Europe
  - Central and Eastern Europe
- VTR (Chile)

All of the reportable segments set forth above derive their revenue primarily from broadband communications or DTH services, including video, broadband internet and telephony services. Most segments also provide business-to-business (B2B) services. At June 30, 2011, our operating segments in UPC Europe provided services in nine European countries. Our Other Western Europe segment includes our broadband communications operating segments in Austria and Ireland. Our Central and Eastern Europe segment includes our broadband communications operating segments in the Czech Republic, Hungary, Poland, Romania and Slovakia. VTR provides broadband communications services in Chile. All references to VTR in these condensed consolidated financial statements exclude the operations and financial position of VTR Wireless. See note 9. UPC Europe's central and other category includes (i) the UPC DTH operating segment, (ii) costs associated with certain centralized functions, including billing systems, network operations, technology, marketing, facilities, finance and other administrative functions and (iii) intersegment eliminations within UPC Europe.

***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, 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 owners' interests in the operating results of VTR and other less significant majority-owned subsidiaries are reflected in net earnings attributable to noncontrolling interests in our condensed consolidated statements of operations.

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		Revenue			
		Three months ended		Six months ended	
		June 30,		June 30,	
		2011	2010	2011	2010
		in millions			
UPC Europe:					
The Netherlands .....	€	227.6	€ 215.5	€ 454.4	€ 428.9
Switzerland.....		227.1	197.0	446.2	385.0
Other Western Europe.....		158.1	153.0	316.4	307.7
Total Western Europe.....		612.8	565.5	1,217.0	1,121.6
Central and Eastern Europe.....		200.6	188.4	394.4	375.7
Central and other .....		22.3	19.7	44.3	39.3
Total UPC Europe .....		835.7	773.6	1,655.7	1,536.6
VTR (Chile).....		158.8	150.5	315.3	282.0
Total.....	€	994.5	€ 924.1	€ 1,971.0	€ 1,818.6

		Operating cash flow			
		Three months ended		Six months ended	
		June 30,		June 30,	
		2011	2010	2011	2010
		in millions			
UPC Europe:					
The Netherlands .....	€	134.7	€ 124.9	€ 266.8	€ 246.8
Switzerland.....		126.5	105.3	248.4	207.4
Other Western Europe.....		73.6	67.4	146.5	138.0
Total Western Europe.....		334.8	297.6	661.7	592.2
Central and Eastern Europe.....		98.3	97.0	191.3	193.7
Central and other .....		(23.2)	(25.1)	(47.1)	(44.2)
Total UPC Europe .....		409.9	369.5	805.9	741.7
VTR (Chile).....		65.2	62.8	131.0	113.5
Total.....	€	475.1	€ 432.3	€ 936.9	€ 855.2

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>in millions</b>			
Total segment operating cash flow .....	€ 475.1	€ 432.3	€ 936.9	€ 855.2
Stock-based compensation expense .....	(3.3)	(5.8)	(6.6)	(10.5)
Related-party fees and allocations, net .....	(3.3)	0.2	(4.8)	(8.1)
Depreciation and amortization .....	(240.0)	(244.8)	(479.7)	(490.7)
Impairment, restructuring and other operating charges, net .....	(1.3)	(3.9)	(3.6)	(5.8)
Operating income .....	227.2	178.0	442.2	340.1
Interest expense:				
Third party .....	(126.7)	(111.4)	(245.3)	(223.1)
Related party .....	(161.4)	(101.7)	(328.8)	(200.3)
Interest income .....	1.1	0.5	2.0	3.2
Realized and unrealized losses on derivative instruments, net .....	(319.5)	(26.0)	(278.7)	(311.7)
Foreign currency transaction gains (losses), net .....	94.2	(274.9)	200.7	(285.0)
Gains (losses) on debt modification and extinguishment, net .....	(0.1)	(2.3)	(11.4)	1.1
Other expense, net .....	(0.7)	(1.4)	(0.3)	(2.2)
Loss before income taxes .....	€ (285.9)	€ (339.2)	€ (219.6)	€ (677.9)

***Revenue by Major Category***

Our revenue by major category is set forth below:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>in millions</b>			
Subscription revenue (a):				
Video .....	€ 490.0	€ 454.0	€ 972.2	€ 897.9
Broadband internet .....	252.0	234.4	499.3	460.1
Telephony .....	135.8	130.3	271.9	255.4
Total subscription revenue .....	877.8	818.7	1,743.4	1,613.4
Other revenue (b) .....	116.7	105.4	227.6	205.2
Total .....	€ 994.5	€ 924.1	€ 1,971.0	€ 1,818.6

- (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 standalone price for each individual service. However, due to regulatory, billing system and other constraints, the allocation of bundling discounts may vary among our broadband communications operating segments.
- (b) Other revenue includes non-subscription revenue (including B2B, interconnect and installation revenue).

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***Geographic Segments***

The revenue of our geographic segments is set forth below:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	in millions			
Europe:				
UPC Europe:				
The Netherlands .....	€ 227.6	€ 215.5	€ 454.4	€ 428.9
Switzerland.....	227.1	197.0	446.2	385.0
Austria .....	81.7	84.2	164.4	171.6
Ireland.....	76.4	68.8	152.0	136.1
Poland.....	65.4	58.4	129.8	115.8
Hungary .....	51.1	47.7	98.2	95.0
Czech Republic .....	46.4	42.2	91.2	83.7
Romania .....	26.0	28.5	52.1	57.6
Slovakia.....	11.7	11.6	23.1	23.6
Other (a) .....	22.3	19.7	44.3	39.3
Total Europe .....	835.7	773.6	1,655.7	1,536.6
Chile .....	158.8	150.5	315.3	282.0
Total.....	€ 994.5	€ 924.1	€ 1,971.0	€ 1,818.6

- (a) Primarily represents revenue of UPC DTH from customers located in Hungary, the Czech Republic, Romania and Slovakia.

**(14) Subsequent Events**

*Extension of UPC Broadband Holding Bank Facility.* On July 26, 2011, UPC Broadband Holding entered into a new additional facility accession agreement (the Additional Facility AA Accession Agreement) under the UPC Broadband Holding Bank Facility. Pursuant to the Additional Facility AA Accession Agreement, certain Facility L and Facility Q lenders (the UPC Rolling Lenders) agreed to roll all or part of their existing Facility L and Facility Q commitments into a new re-drawable term loan facility (Facility AA) in an aggregate principal amount of €413.7 million. The UPC Rolling Lenders novated their existing Facility L and Facility Q commitments to UPC Broadband Operations B.V. (UPC Operations), a direct subsidiary of UPC Broadband Holding, and entered into the new Facility AA. UPC Operations, the initial lender under the Additional Facility AA Accession Agreement, novated its Facility AA commitment to the UPC Rolling Lenders. The final maturity date for Facility AA is July 31, 2016. A commitment fee of 1.30% per year of the undrawn uncanceled portion of the total Facility AA commitment is payable quarterly in arrears. Facility AA bears interest at a rate of EURIBOR plus 3.25%. Facility AA may be increased in the future by entering into one or more additional facility accession agreements.

On August 2, 2011, UPC Broadband Holding entered into a new additional facility accession agreement (the Additional Facility AA2 Accession Agreement) under the UPC Broadband Holding Bank Facility. Pursuant to the Additional Facility AA2 Accession Agreement, the existing Facility AA was increased by certain lenders (the Facility AA2 Lenders) in an aggregate principal amount of €290.3 million (Facility AA2). UPC Operations was the initial lender under the Additional Facility AA2 Accession Agreement and novated its Facility AA2 commitment to the Facility AA2 Lenders. The terms of Facility AA2 are substantially the same as those of Facility AA. In connection with the execution of the Additional Facility AA2 Accession Agreement, one lender novated €33.2 million of its drawn Facility M and \$30.0 million (€20.7 million) of its drawn Facility N commitments under the UPC Broadband Holding Bank Facility to UPC Operations. In addition, one lender novated €3.6 million of its drawn Facility M commitment to UPC Operations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCE CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis, which should be read in conjunction with our condensed consolidated financial statements and the discussion and analysis included in our 2010 annual report, 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 six months ended June 30, 2011 and 2010.
- *Material Changes in Financial Condition.* This section provides an analysis of our corporate and subsidiary liquidity, condensed consolidated cash flow statements, off balance sheet arrangements and contractual commitments.

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 June 30, 2011.

### 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, foreign currency and finance strategies, our capital expenditures, 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 2010 annual report, 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 operate;
- the competitive environment in the broadband communications and programming industries in the countries in which we operate;
- competitor responses to our products and services;
- 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, broadband internet and telephony 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 maintain or increase the number of subscriptions to our digital video, broadband internet and telephony 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;
- changes in, or failure or inability to comply with, government regulations in the countries in which we operate and adverse

outcomes from regulatory proceedings;

- government intervention that opens our broadband distribution networks to competitors;
- the ability to obtain regulatory approval and satisfy other conditions necessary to close acquisitions and dispositions, as well as our ability to satisfy conditions imposed by competition and other regulatory authorities in connection with acquisitions;
- our ability to successfully negotiate rate increases where applicable;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in countries in which we operate;
- changes in laws and government regulations that may impact the availability and cost of credit and the derivative instruments that hedge certain of our financial risks;
- 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 and services;
- the availability of attractive programming for our digital video services at reasonable costs;
- the outcome of any pending or threatened litigation;
- any further consolidation of the foreign broadband distribution industry;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners and joint venturers; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, natural disasters, pandemics and 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 the above-described 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. Readers are cautioned not to place undue reliance on any forward-looking statement.

## Overview

We are an international provider of video, broadband internet and telephony services with consolidated broadband communications and/or DTH operations at June 30, 2011 in nine European countries and in Chile. Our European broadband communications and DTH operations are collectively referred to as UPC Europe. Our broadband communications operations in Chile are provided through VTR.

Our analog cable 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 cable 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 programming.

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 all of our cable 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.

LGI has initiated construction of a mobile network in Chile that will be used in combination with MVNO arrangements to provide mobile and broadband products. As the Chilean mobile initiative will be conducted through VTR Wireless, an 80%-owned subsidiary of LGI that is outside of UPC Holding, all references to VTR in the following discussion and analysis exclude the operations and financial position of VTR Wireless.

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. We plan to continue to employ this strategy to achieve organic revenue and customer growth.

At June 30, 2011, we owned and operated networks that passed 16,954,700 homes and served 16,757,600 revenue generating units (RGUs), consisting of 9,085,900 video subscribers, 4,532,000 broadband internet subscribers and 3,139,700 telephony subscribers.

Including the effects of acquisitions, we added a total of 194,400 and 324,200 RGUs during the three and six months ended June 30, 2011, respectively. Excluding the effects of acquisitions (RGUs added on the acquisition date), but including post-acquisition date RGU additions, we added 114,500 and 242,100 RGUs on an organic basis during the three and six months ended June 30, 2011, as compared to 67,500 and 172,300 RGUs that were added on an organic basis during the corresponding periods in 2010. The organic RGU growth during the 2011 periods is attributable to the growth of our (i) digital cable services, which added 139,900 and 326,900 RGUs, respectively, (ii) broadband internet services, which added 83,600 and 186,600 RGUs, respectively, (iii) telephony services, which added 85,600 and 163,700 RGUs, respectively, and (iv) DTH video services, which added 9,100 and 24,600 RGUs, respectively. The growth of our digital cable, broadband internet, telephony and DTH video services was partially offset by declines in our analog cable RGUs of 200,600 and 454,100, respectively, and less significant declines in our multi-channel multi-point (microwave) distribution system (MMDS) video RGUs.

We are experiencing significant competition from incumbent telecommunications operators, DTH operators and/or other providers in all of our broadband communications markets. This significant competition, together with the maturation of certain of our markets, has contributed to organic declines in certain of our markets in revenue, RGUs and/or average monthly subscription revenue per average RGU (ARPU), the more notable of which include:

- (i) organic declines in subscription and overall revenue in Romania, Austria, Hungary and the Czech Republic during the second quarter of 2011, as compared to the second quarter of 2010;
- (ii) organic declines in subscription revenue from (a) video services in Romania and the Czech Republic, (b) broadband internet services in Austria and Romania and (c) telephony services in Chile and Switzerland during the second quarter of 2011, as compared to the second quarter of 2010;
- (iii) organic declines in video RGUs in most of our markets during the second quarter of 2011, as net declines in our analog cable RGUs exceeded net additions to our digital cable RGUs (including migrations from analog cable) in these markets;
- (iv) an organic decline in total RGUs in the Czech Republic during the second quarter of 2011;
- (v) organic declines in ARPU from broadband internet and telephony services in most of our broadband communications markets during the second quarter of 2011, as compared to the second quarter of 2010; and
- (vi) organic declines in overall ARPU in Austria, Hungary, the Czech Republic and Romania during the second quarter of 2011, as compared to the second quarter of 2010.

In addition to competition, our operations are also subject to economic, political and regulatory risks that are outside of our control. For example, high levels of sovereign debt in the U.S. and certain European countries, including Ireland, could lead to austerity measures, currency instability, disruptions in the credit and equity markets and other outcomes that might adversely impact our company.

On February 27, 2010, certain areas served by VTR's broadband distribution network in Chile experienced a significant earthquake. This earthquake and the related tsunami destroyed or otherwise adversely impacted an estimated 24,000 homes passed by VTR's broadband communications network, resulting in the loss of an estimated 15,500 RGUs. With the exception of destroyed

homes, service has been restored to substantially all of the homes within VTR's network footprint. During the first quarter of 2010, VTR experienced an estimated loss of revenue of €3.1 million due to destroyed homes, temporary service outages and VTR's allowance of free telephone usage during the weeks following the earthquake. In addition, the earthquake led to (i) an estimated €0.7 million increase in certain operating and selling, general and administrative expenses and (ii) other adverse impacts on VTR's results of operations that are less quantifiable. Although the direct financial impacts of the earthquake adversely affected VTR's results of operations during the first quarter of 2010, VTR's operations in subsequent periods have not been materially impacted by the earthquake.

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 and to upgrade our networks to enhance our service offerings and improve the customer experience, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies or adverse regulatory or economic developments 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. For information regarding our capital expenditures, see *Material Changes in Financial Condition - Condensed Consolidated Cash Flow Statements* below.

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

As noted under *Overview* above, the comparability of our operating results during 2011 and 2010 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. Accordingly, in the following discussion, variances attributed to an acquired entity during the first twelve months following the acquisition date represent differences between the estimated acquisition impact and the actual results.

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 FX risk during the six months ended June 30, 2011 was to the Swiss franc and the Chilean peso. In addition, our reported operating results are impacted by changes in the exchange rates of other local currencies in Europe. In this regard 57.8% of our euro revenue during the six months ended June 30, 2011 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 FX 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, 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 owners' interests in the operating results of VTR and other less significant majority-owned subsidiaries are reflected in net earnings attributable to noncontrolling interests in our condensed consolidated statements of operations.

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

### ***General***

All of the reportable segments set forth below derive their revenue primarily from broadband communications or DTH services, including video, broadband internet and telephony services. Most segments also provide B2B services. At June 30, 2011, our operating segments in UPC Europe provided services in nine European countries. Our Other Western Europe segment includes our broadband communications operating segments in Austria and Ireland. Our Central and Eastern Europe segment includes our broadband communications operating segments in the Czech Republic, Hungary, Poland, Romania and Slovakia. VTR provides broadband communications operations in Chile. UPC Europe's central and other category includes (i) the UPC DTH operating segment, (ii) costs associated with certain centralized functions, including billing systems, network operations, technology, marketing, facilities, finance and other administrative functions and (iii) intersegment eliminations within UPC Europe.

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, as further discussed in note 13 to our condensed consolidated financial statements) as well as an analysis of operating cash flow by reportable

segment for the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010. 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 organic percentage change from period to period (percentage change after removing FX and the estimated impacts of acquisitions.) The comparisons that exclude FX assume that exchange rates remained constant at the prior year rate during the comparative periods that are included in each table. We have significant exposure to movements in foreign currency exchange rates. We also provide a table showing the operating cash flow margins of our reportable segments for the three and six months ended June 30, 2011 and 2010 at the end of this section.

The revenue of our reportable segments includes revenue earned from subscribers for ongoing services, installation fees, advertising revenue, mobile telephony revenue, channel carriage fees, telephony interconnect fees, late fees and revenue earned from B2B services. Consistent with the presentation of our revenue categories in note 13 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 in Europe and Chile 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.

Most of our revenue is derived from jurisdictions that administer value-added or similar revenue-based taxes. Any increases in these taxes could have an adverse impact on our ability to maintain or increase our revenue to the extent that we are unable to pass such tax increases on to our customers. In the case of revenue-based taxes for which we are the ultimate taxpayer, we will also experience increases in our operating expenses and corresponding declines in our operating cash flow and operating cash flow margins to the extent of any such tax increases. In this regard, value added tax rates have increased (i) during 2010, in Romania and, to a lesser extent, in the Czech Republic, and (ii) effective January 1, 2011, in Switzerland, Poland and Slovakia. In addition, during the fourth quarter of 2010, the Hungarian government imposed a revenue-based tax that is applicable to our broadband communications operations in Hungary. The new Hungarian tax law is currently scheduled to expire at the end of 2012. It is not yet clear whether the new Hungarian tax is compliant with EU regulations and on March 14, 2011, the EU Commission initiated an infringement procedure against this tax. The outcome of the infringement procedure is uncertain.

## Revenue of our Reportable Segments

	Three months ended June 30,		Increase		Organic increase
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 227.6	€ 215.5	€ 12.1	5.6	5.6
Switzerland.....	227.1	197.0	30.1	15.3	2.4
Other Western Europe.....	158.1	153.0	5.1	3.3	3.3
Total Western Europe.....	612.8	565.5	47.3	8.4	3.9
Central and Eastern Europe.....	200.6	188.4	12.2	6.5	0.8
Central and other.....	22.3	19.7	2.6	13.2	13.3
Total UPC Europe.....	835.7	773.6	62.1	8.0	3.4
VTR (Chile).....	158.8	150.5	8.3	5.5	5.6
Total.....	€ 994.5	€ 924.1	€ 70.4	7.6	3.7

	Six months ended June 30,		Increase		Organic increase
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 454.4	€ 428.9	€ 25.5	5.9	5.9
Switzerland.....	446.2	385.0	61.2	15.9	2.5
Other Western Europe.....	316.4	307.7	8.7	2.8	2.8
Total Western Europe.....	1,217.0	1,121.6	95.4	8.5	3.9
Central and Eastern Europe.....	394.4	375.7	18.7	5.0	1.3
Central and other.....	44.3	39.3	5.0	12.7	13.1
Total UPC Europe.....	1,655.7	1,536.6	119.1	7.8	3.5
VTR (Chile).....	315.3	282.0	33.3	11.8	7.3
Total.....	€ 1,971.0	€ 1,818.6	€ 152.4	8.4	4.1

*General.* While not specifically discussed in the below explanations of the changes in the revenue of our reportable segments, we are experiencing significant competition in all of our broadband communications markets. For a description of the more notable impacts of this competition on our broadband communications markets, see *Overview* above.

*The Netherlands.* During the three and six months ended June 30, 2011, the Netherlands' revenue increased 5.6% and 5.9%, respectively, as compared to the corresponding periods in 2010, as set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase due to change in:						
Average number of RGUs (a) .....	€ 7.2	€ —	€ 7.2	€ 15.5	€ —	€ 15.5
ARPU (b) .....	4.1	—	4.1	7.3	—	7.3
Increase in non-subscription revenue (c) .....	—	0.8	0.8	—	2.7	2.7
Total .....	€ 11.3	€ 0.8	€ 12.1	€ 22.8	€ 2.7	€ 25.5

- (a) The increases in subscription revenue related to changes in the average number of RGUs are attributable to the net effect of (i) increases in the average numbers of digital cable, telephony and broadband internet RGUs and (ii) declines in the average numbers of analog cable RGUs. The declines in the Netherlands' average number of analog cable RGUs led to declines in the average numbers of total video RGUs in the Netherlands during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010.
- (b) The increases in subscription revenue related to changes in ARPU are primarily due to improvements in the Netherlands' RGU mix, attributable to higher proportions of digital cable, telephony and broadband internet RGUs that were only partially offset by net decreases resulting primarily from the following factors: (i) lower ARPU due to increases in proportions of customers selecting lower-priced tiers of broadband internet services, (ii) higher ARPU due to January 2011 price increases for certain video, broadband internet and telephony services and (iii) lower ARPU due to decreases in telephony call volumes, including the impact of customers moving from usage-based to fixed-rate calling plans.
- (c) The increases in the Netherlands' non-subscription revenue are largely attributable to increases in B2B revenue, due primarily to growth in B2B telephony and broadband internet services.

*Switzerland.* The increases in Switzerland's revenue during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, include (i) organic increases of €4.8 million or 2.4% and €9.5 million or 2.5%, respectively, and (ii) the impact of FX, as set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase due to change in:						
Average number of RGUs (a) .....	€ 1.5	€ —	€ 1.5	€ 2.8	€ —	€ 2.8
ARPU (b) .....	2.3	—	2.3	4.1	—	4.1
Increase in non-subscription revenue (c) .....	—	1.0	1.0	—	2.6	2.6
Organic increase .....	3.8	1.0	4.8	6.9	2.6	9.5
Impact of FX .....	21.5	3.8	25.3	43.3	8.4	51.7
Total .....	€ 25.3	€ 4.8	€ 30.1	€ 50.2	€ 11.0	€ 61.2

- (a) The increases in subscription revenue related to changes in Switzerland's average numbers of RGUs are attributable to increases in the average numbers of digital cable, broadband internet and telephony RGUs that were only partially offset

by decreases in the average numbers of analog cable RGUs. The declines in the average numbers of Switzerland's analog cable RGUs led to declines in the average numbers of total video RGUs in Switzerland during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010.

- (b) The increases in subscription revenue related to changes in ARPU are primarily due to improvements in Switzerland's RGU mix, attributable to higher proportions of digital cable, broadband internet and telephony RGUs that were only partially offset by net decreases resulting primarily from the following factors: (i) lower ARPU due to decreases in telephony call volumes for customers on usage-based calling plans, (ii) higher ARPU due to price increases implemented in January 2011 and the second half of 2010 for certain analog and digital cable services and (iii) lower ARPU from increases in the proportions of customers selecting lower-priced tiers of broadband internet services.
- (c) The increases in Switzerland's non-subscription revenue are primarily attributable to the net impact of (i) increases in installation revenue, (ii) higher revenue from the sale of customer premises equipment and (iii) during the six-month period, a decline in B2B revenue. The higher revenue from customer premises equipment sales is due largely to the second quarter 2010 introduction of "digicards," which enable customers with "common interface plus" enabled televisions who subscribe to, or otherwise have purchased access to, our digital cable service, to view our digital cable service without a set-top box. The decline in B2B revenue during the six-month period is due primarily to lower revenue from construction and equipment sales that was only partially offset by modest growth in B2B broadband internet and telephony services.

*Other Western Europe.* During the three and six months ended June 30, 2011, Other Western Europe's revenue increased 3.3% and 2.8%, respectively, as compared to the corresponding periods in 2010, as set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase (decrease) due to change in:						
Average number of RGUs (a).....	€ 8.8	€ —	€ 8.8	€ 17.1	€ —	€ 17.1
ARPU (b).....	(4.1)	—	(4.1)	(6.7)	—	(6.7)
Increase (decrease) in non-subscription revenue (c).....	—	0.4	0.4	—	(1.7)	(1.7)
Total.....	€ 4.7	€ 0.4	€ 5.1	€ 10.4	€ (1.7)	€ 8.7

- (a) The increases in subscription revenue related to changes in the average numbers of RGUs, which include increases in both Austria and Ireland, are attributable to increases in the average numbers of telephony, digital cable and broadband internet RGUs that were only partially offset by decreases in the average numbers of analog cable and, to a lesser extent, Ireland's MMDS RGUs. The negative impact of lower average numbers of analog cable and MMDS RGUs led to declines in the average numbers of total video RGUs in Other Western Europe during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010.
- (b) The decreases in subscription revenue related to changes in ARPU are attributable to decreases in ARPU in Austria that were only partially offset by increases in ARPU in Ireland. The decreases in Austria's overall ARPU are primarily due to the net impacts of the following factors: (i) lower ARPU due to higher proportions of customers selecting lower-priced tiers of broadband internet services and (ii) lower ARPU due to decreases in telephony call volumes for customers on usage-based calling plans and higher proportions of customers selecting such usage-based calling plans. The increases in Ireland's overall ARPU are primarily due to improvements in Ireland's RGU mix, primarily attributable to higher proportions of broadband internet RGUs. Changes in Austria's product mix and Ireland's individual product ARPUs did not significantly impact Other Western Europe's overall ARPU during the comparative periods.
- (c) The changes in Other Western Europe's non-subscription revenue are due primarily to (i) during the six-month period, a decrease in B2B revenue and (ii) individually insignificant changes in other non-subscription revenue categories. The decrease in B2B revenue during the six-month period is primarily attributable to the net effect of (i) a decrease resulting from the impact of a first quarter 2010 favorable settlement with the incumbent telecommunications operator in Austria and (ii) growth in Ireland's B2B broadband internet services.

*Central and Eastern Europe.* The increases in Central and Eastern Europe's revenue during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, include (i) organic increases of €1.4 million or 0.8% and €4.9 million or 1.3%, respectively, and (ii) the impact of acquisitions and FX, as set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase (decrease) due to change in:						
Average number of RGUs (a) .....	€ 3.7	€ —	€ 3.7	€ 7.5	€ —	€ 7.5
ARPU (b) .....	(3.2)	—	(3.2)	(5.5)	—	(5.5)
Increase in non-subscription revenue (c)...	—	0.9	0.9	—	2.9	2.9
Organic increase.....	0.5	0.9	1.4	2.0	2.9	4.9
Impact of acquisitions.....	2.9	2.8	5.7	3.0	3.7	6.7
Impact of FX.....	4.6	0.5	5.1	6.7	0.4	7.1
Total .....	€ 8.0	€ 4.2	€ 12.2	€ 11.7	€ 7.0	€ 18.7

- (a) The increases in subscription revenue related to changes in the average numbers of RGUs are primarily attributable to the net effect of (i) increases in the average numbers of digital cable, broadband internet and telephony RGUs and (ii) declines in the average numbers of analog cable and, to a much lesser extent, MMDS video RGUs. The declines in the average numbers of analog cable RGUs led to declines in the average numbers of total video RGUs in each country other than Poland within our Central and Eastern Europe segment during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010.
- (b) The decreases in subscription revenue related to changes in ARPU are primarily due to the net impacts of the following factors: (i) lower ARPU due to increases in the proportions of analog and digital cable subscribers selecting lower-priced tiers of service, (ii) lower ARPU due to increases in the proportions of broadband internet and telephony subscribers selecting lower-priced tiers of services and (iii) lower ARPU due to decreases in telephony call volumes for customers on usage-based calling plans. The impacts of these negative factors were partially offset by improvements in Central and Eastern Europe's RGU mix, primarily attributable to higher proportions of digital cable and broadband internet RGUs.
- (c) The increases in non-subscription revenue in our Central and Eastern Europe segment are primarily attributable to increases in B2B revenue, largely driven by growth in B2B broadband internet services in Poland and Hungary and B2B telephony services in Hungary.

Although competition is a factor throughout Central and Eastern Europe, we are experiencing particularly intense competition in Romania. In Romania, competition contributed to organic declines in (i) total RGUs during the first half of 2011 and (ii) subscription and total revenue during the three and six months ended June 30, 2011, each as compared to the corresponding periods in 2010. Additionally, in Hungary, Poland and Slovakia, our competitors include other cable operators that have overbuilt or plan to overbuild significant portions of our broadband communications network. We expect that we will continue to experience significant competition in future periods in our Central and Eastern Europe segment.

*VTR (Chile)*. As further described in *Overview* above, the direct financial impacts of the February 27, 2010 earthquake in Chile adversely impacted VTR's revenue, RGU base and ARPU during the first quarter of 2010. The increases in VTR's revenue during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, include (i) organic increases of €8.4 million or 5.6% and €20.6 million or 7.3%, respectively, and (ii) the impact of FX, as set forth below:

	Three-month period			Six-month period		
	Subscription revenue	Non-subscription revenue	Total	Subscription revenue	Non-subscription revenue	Total
	in millions					
Increase due to change in:						
Average number of RGUs (a).....	€ 5.5	€ —	€ 5.5	€ 8.7	€ —	€ 8.7
ARPU (b).....	1.8	—	1.8	9.8	—	9.8
Increase in non-subscription revenue (c).....	—	1.1	1.1	—	2.1	2.1
Organic increase .....	7.3	1.1	8.4	18.5	2.1	20.6
Impact of FX.....	(0.1)	—	(0.1)	11.5	1.2	12.7
Total.....	€ 7.2	€ 1.1	€ 8.3	€ 30.0	€ 3.3	€ 33.3

- (a) The increases in subscription revenue related to changes in the average number of RGUs are primarily due to increases 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.
- (b) The increases in subscription revenue related to changes in ARPU are primarily due to (i) the net impacts of the following factors: (a) higher ARPU from digital cable products and services, (b) lower ARPU due to increases in the proportions of customers selecting lower-priced tiers of broadband internet services, (c) during the six-month period, higher ARPU resulting from the impact of credits provided to customers in the weeks following the earthquake during the first quarter of 2010, and (d) higher ARPU due to inflation and other price adjustments and (ii) improvements in VTR's RGU mix, attributable to higher proportions of digital cable and broadband internet RGUs.
- (c) The increases in VTR's non-subscription revenue are primarily attributable to the net impact of higher advertising revenue and lower interconnect revenue.



## Operating Expenses of our Reportable Segments

	Three months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 67.3	€ 64.6	€ 2.7	4.2	4.2
Switzerland .....	67.1	62.3	4.8	7.7	(4.1)
Other Western Europe.....	62.1	61.2	0.9	1.5	1.5
Total Western Europe.....	196.5	188.1	8.4	4.5	0.6
Central and Eastern Europe .....	77.5	67.9	9.6	14.1	7.1
Central and other .....	19.0	19.4	(0.4)	(2.1)	(2.8)
Total UPC Europe.....	293.0	275.4	17.6	6.4	1.9
VTR (Chile) .....	66.1	62.6	3.5	5.6	5.7
Total operating expenses excluding stock-based compensation expense.....	359.1	338.0	21.1	6.2	2.6
Stock-based compensation expense.....	0.3	0.8	(0.5)	(62.5)	
Total.....	€ 359.4	€ 338.8	€ 20.6	6.1	

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 137.5	€ 131.1	€ 6.4	4.9	4.9
Switzerland .....	132.0	119.2	12.8	10.7	(1.9)
Other Western Europe.....	125.4	122.6	2.8	2.3	2.3
Total Western Europe.....	394.9	372.9	22.0	5.9	1.8
Central and Eastern Europe .....	154.7	135.8	18.9	13.9	9.7
Central and other .....	38.5	37.3	1.2	3.2	3.0
Total UPC Europe.....	588.1	546.0	42.1	7.7	3.9
VTR (Chile) .....	130.7	120.6	10.1	8.4	3.9
Total operating expenses excluding stock-based compensation expense.....	718.8	666.6	52.2	7.8	3.9
Stock-based compensation expense.....	0.6	1.3	(0.7)	(53.8)	
Total.....	€ 719.4	€ 667.9	€ 51.5	7.7	

*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 Europe.* UPC Europe's operating expenses (exclusive of stock-based compensation expense) increased €17.6 million or 6.4% and €42.1 million or 7.7% during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These increases include €2.8 million and €3.4 million, respectively, attributable to acquisitions. Excluding the effects of acquisitions and FX, UPC Europe's operating expenses increased €5.3 million or 1.9% and €21.2 million or 3.9%, respectively. These increases include the following factors:

- Increases in programming and related costs of €5.0 million or 6.9% and €11.2 million or 7.9%, respectively, due primarily to growth in digital video services, predominantly in the Netherlands and to a lesser degree, Poland, Ireland, and Switzerland;
- Increases in bad debt and collection expenses of €2.1 million and €6.4 million, respectively, due to increases in the Czech Republic and the Netherlands;
- Increases of €3.1 million and €5.8 million, respectively, that represent the impact of a new revenue-based tax that was imposed in Hungary during the fourth quarter of 2010, as described under *Discussion and Analysis of our Reportable Segments - General* above;
- Decreases in interconnect and access costs of €3.2 million or 10.1% and €5.5 million or 8.7%, respectively, due primarily to lower rates in Switzerland and to a lesser extent, the Netherlands. A net decrease associated with (i) lower call volumes, primarily in Switzerland and Austria, and (ii) subscriber growth also contributed to the decrease;
- An increase (decrease) in network related expenses of (€0.6 million) or (1.7%) and €3.7 million or 5.2%, respectively, due primarily to the net effect of (i) increased encryption costs, due largely to increased numbers of installed digital cable set-top boxes, (ii) higher duct and pole rental costs due to increased rates in the Czech Republic and Romania, (iii) higher costs associated with the refurbishment of customer premises equipment, mainly in UPC DTH, Hungary and Romania, (iv) lower electricity costs in the Czech Republic and (v) net decreases resulting from individually insignificant changes in other categories of network related expenses; and
- Decreases of €1.6 million or 35.6% and €2.4 million or 28.3% at UPC DTH due to lower satellite costs resulting from (i) lower costs due to certain expenses incurred in the 2010 periods related to UPC DTH's migration to a new satellite and (ii) lower transponder rates.

*VTR (Chile).* VTR's operating expenses (exclusive of stock-based compensation expense) increased €3.5 million or 5.6% and €10.1 million or 8.4% during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. Excluding the effects of FX, VTR's operating expenses increased €3.6 million or 5.7% and €4.7 million or 3.9%, respectively. These increases include the following factors:

- Increases in programming and related costs of €1.8 million or 8.9% and €2.5 million or 6.2%, respectively, as increases associated with growth in digital cable services were only partially offset by decreases associated with foreign currency exchange rate fluctuations with respect to VTR's U.S. dollar denominated programming contracts. A significant portion of VTR's programming costs are denominated in U.S. dollars; and
- Increases in outsourced labor of €0.9 million or 20.1% and €1.9 million or 22.4%, respectively, due primarily to (i) higher numbers of service calls and (ii) increased call center costs due to efforts to improve service levels.

## SG&A Expenses of our Reportable Segments

	Three months ended June 30,				Increase (decrease)		Organic increase (decrease)
	2011	2010	€	%		%	
	in millions						
UPC Europe:							
The Netherlands.....	€	25.6	€	26.0	€	(0.4)	(1.5)
Switzerland .....		33.5		29.4		4.1	13.9
Other Western Europe.....		22.4		24.4		(2.0)	(8.2)
Total Western Europe.....		81.5		79.8		1.7	2.1
Central and Eastern Europe .....		24.8		23.5		1.3	5.5
Central and other .....		26.5		25.4		1.1	4.3
Total UPC Europe.....		132.8		128.7		4.1	3.2
VTR (Chile) .....		27.5		25.1		2.4	9.6
Total SG&A expenses excluding stock-based compensation expense.....		160.3		153.8		6.5	4.2
Stock-based compensation expense.....		3.0		5.0		(2.0)	(40.0)
Total .....	€	163.3	€	158.8	€	4.5	2.8

	Six months ended June 30,				Increase (decrease)		Organic increase (decrease)
	2011	2010	€		%	%	
	in millions						
UPC Europe:							
The Netherlands.....	€ 50.1	€ 51.0	€ (0.9)		(1.8)	(1.8)	
Switzerland .....	65.8	58.4	7.4		12.7	(0.2)	
Other Western Europe.....	44.5	47.1	(2.6)		(5.5)	(5.5)	
Total Western Europe.....	160.4	156.5	3.9		2.5	(2.3)	
Central and Eastern Europe .....	48.4	46.2	2.2		4.8	1.7	
Central and other .....	52.9	46.2	6.7		14.5	14.5	
Total UPC Europe.....	261.7	248.9	12.8		5.1	1.5	
VTR (Chile) .....	53.6	47.9	5.7		11.9	7.4	
Total SG&A expenses excluding stock-based compensation expense.....	315.3	296.8	18.5		6.2	2.5	
Stock-based compensation expense.....	6.0	9.2	(3.2)		(34.8)		
Total.....	€ 321.3	€ 306.0	€ 15.3		5.0		

*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 *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 Europe.* UPC Europe's SG&A expenses (exclusive of stock-based compensation expense) increased €4.1 million or 3.2% and €12.8 million or 5.1% during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These increases include €0.6 million and €0.7 million, respectively, attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, UPC Europe's SG&A expenses increased (decreased) (€0.3 million) or (0.3%) and €3.8 million or 1.5%, respectively. These changes include the following factors:

- Increases in personnel costs of €3.5 million or 6.5% and €7.8 million or 7.3%, respectively, due in part to (i) annual wage increases and (ii) increased staffing levels;
- Decreases in sales and marketing costs of €3.0 million or 7.6% and €3.0 million or 4.1%, respectively, due primarily to the net effect of (i) lower sales commissions in the Czech Republic and Austria and (ii) increased marketing activities in UPC DTH; and
- Net decreases resulting from individually insignificant changes in other SG&A expense categories.

*VTR (Chile).* VTR's SG&A expenses (exclusive of stock-based compensation expense) increased €2.4 million or 9.6% and €5.7 million or 11.9%, during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. Excluding the effects of FX, VTR's SG&A expenses increased €2.4 million or 9.7% and €3.5 million or 7.4%, respectively. These increases include the following factors:

- Increases in sales and marketing costs of €1.3 million or 18.6% and €3.4 million or 22.4%, respectively, due primarily to higher costs related to increased advertising campaigns; and
- A net increase resulting from individually insignificant changes in other SG&A expense categories during the three-month period.

### 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 before income taxes, see note 13 to our condensed consolidated financial statements.

	Three months ended June 30,		Increase		Organic increase (decrease)
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 134.7	€ 124.9	€ 9.8	7.8	7.8
Switzerland.....	126.5	105.3	21.2	20.1	6.5
Other Western Europe.....	73.6	67.4	6.2	9.2	9.2
Total Western Europe.....	334.8	297.6	37.2	12.5	7.7
Central and Eastern Europe.....	98.3	97.0	1.3	1.3	(3.9)
Central and other.....	(23.2)	(25.1)	1.9	7.6	9.8
Total UPC Europe.....	409.9	369.5	40.4	10.9	5.8
VTR (Chile).....	65.2	62.8	2.4	3.8	3.7
Total.....	€ 475.1	€ 432.3	€ 42.8	9.9	5.5

	Six months ended June 30,		Increase (decrease)		Organic increase (decrease)
	2011	2010	€	%	%
	in millions				
UPC Europe:					
The Netherlands.....	€ 266.8	€ 246.8	€ 20.0	8.1	8.1
Switzerland.....	248.4	207.4	41.0	19.8	5.8
Other Western Europe.....	146.5	138.0	8.5	6.2	6.2
Total Western Europe.....	661.7	592.2	69.5	11.7	6.8
Central and Eastern Europe.....	191.3	193.7	(2.4)	(1.2)	(4.7)
Central and other.....	(47.1)	(44.2)	(2.9)	(6.6)	(5.5)
Total UPC Europe.....	805.9	741.7	64.2	8.7	3.9
VTR (Chile).....	131.0	113.5	17.5	15.4	10.9
Total.....	€ 936.9	€ 855.2	€ 81.7	9.6	4.8

### ***Operating Cash Flow Margin***

The following table sets forth the operating cash flow margin (operating cash flow divided by revenue) of each of our reportable segments:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	%			
UPC Europe:				
The Netherlands .....	59.2	58.0	58.7	57.5
Switzerland.....	55.7	53.5	55.7	53.9
Other Western Europe.....	46.6	44.1	46.3	44.8
Total Western Europe.....	54.6	52.6	54.4	52.8
Central and Eastern Europe.....	49.0	51.5	48.5	51.6
Total UPC Europe, including central and other.....	49.0	47.8	48.7	48.3
VTR (Chile).....	41.1	41.7	41.5	40.2

While the operating cash flow margins of most of our reportable segments improved during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, we experienced decreases in operating cash flow margins in Central and Eastern Europe and in Chile. In Central and Eastern Europe, competitive, economic, political and other factors, including the fourth quarter 2010 imposition of a revenue tax in Hungary, have contributed to the decline in operating cash flow margins. In the case of Chile, the margin improvement during the six-month period is primarily attributable to the adverse impacts of the February 2010 earthquake on VTR's margin during the comparable period in 2010. The improvements in the operating cash flow margins are primarily attributable to improved operational leverage, resulting from revenue growth that more than offset the accompanying increases in operating and SG&A expenses. During the 2011 and 2010 periods, foreign currency impacts associated with non-functional currency expenses did not significantly impact the comparability of the operating cash flow margins of our operating segments. 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. For additional information regarding the new Hungarian tax, see *Discussion and Analysis of our Reportable Segments - General* above.

## 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 Reportable Segments* that appears above.

### Revenue

Our revenue by major category is set forth below:

	Three months ended June 30,		Increase		Organic increase
	2011	2010	€	%	%
	in millions				
Subscription revenue (a):					
Video.....	€ 490.0	€ 454.0	€ 36.0	7.9	4.2
Broadband internet .....	252.0	234.4	17.6	7.5	4.0
Telephony .....	135.8	130.3	5.5	4.2	1.3
Total subscription revenue.....	877.8	818.7	59.1	7.2	3.7
Other revenue (b) .....	116.7	105.4	11.3	10.7	3.9
Total.....	€ 994.5	€ 924.1	€ 70.4	7.6	3.7

	Six months ended June 30,		Increase		Organic increase
	2011	2010	€	%	%
	in millions				
Subscription revenue (a):					
Video.....	€ 972.2	€ 897.9	€ 74.3	8.3	4.3
Broadband internet .....	499.3	460.1	39.2	8.5	4.4
Telephony .....	271.9	255.4	16.5	6.5	2.6
Total subscription revenue.....	1,743.4	1,613.4	130.0	8.1	4.1
Other revenue (b) .....	227.6	205.2	22.4	10.9	4.3
Total.....	€ 1,971.0	€ 1,818.6	€ 152.4	8.4	4.1

(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 standalone price for each individual service. However, due to regulatory, billing system and other constraints, the methodology used to allocate bundling discounts may vary between our broadband communications operating segments.

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

**Total revenue.** Our consolidated revenue increased €70.4 million and €152.4 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These increases include €5.8 million and €6.7 million, respectively, attributable to the impact of acquisitions. Excluding the effects of acquisitions and FX, total consolidated revenue increased €34.4 million or 3.7% and €74.5 million or 4.1%, respectively.

*Subscription revenue.* The details of the increases in our consolidated subscription revenue for three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, are as follows:

	<b>Three-month period</b>		<b>Six-month period</b>	
	<b>in millions</b>			
Increase due to change in:				
Average number of RGUs .....	€	29.0	€	55.4
ARPU .....		1.3		10.2
Organic increase .....		30.3		65.6
Impact of acquisitions .....		2.9		3.0
Impact of FX .....		25.9		61.4
Total increase in subscription revenue .....	€	59.1	€	130.0

Excluding the effects of acquisitions and FX, our consolidated subscription revenue increased €30.3 million or 3.7% and €65.6 million or 4.1% during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010. These increases are attributable to (i) increases in subscription revenue from video services of €19.2 million or 4.2% and €38.7 million or 4.3%, respectively, as the impacts of higher ARPU from video services were only partially offset by declines in the average numbers of video RGUs, (ii) increases in subscription revenue from broadband internet services of €9.4 million or 4.0% and €20.3 million or 4.4%, respectively, as the impacts of increases in the average number of broadband internet RGUs were only partially offset by lower ARPU from broadband internet services, and (iii) increases in subscription revenue from telephony services of €1.7 million or 1.3% and €6.7 million or 2.6%, respectively, as the impacts of increases in the average numbers of telephony RGUs were only partially offset by lower ARPU from telephony services.

*Other revenue.* Excluding the effects of acquisitions and FX, our consolidated other revenue increased €4.1 million or 3.9% and €8.8 million or 4.3% during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010. These increases are primarily attributable to increases in (i) B2B revenue and (ii) installation revenue.

For additional information concerning the changes in our subscription and other 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 operating expenses increased €20.6 million and €51.5 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These increases include €2.8 million and €3.4 million, respectively, attributable to the impact of acquisitions. Our operating expenses include stock-based compensation expense, which decreased €0.5 million and €0.7 million during the three and six months ended June 30, 2011, respectively. For additional information, see the discussion following *SG&A expenses* below. Excluding the effects of acquisitions, FX and stock-based compensation expense, our operating expenses increased €8.9 million or 2.6% and €25.9 million or 3.9% during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. As discussed in more detail under *Discussion and Analysis of Reportable Segments - Operating Expenses* above, these increases generally reflect (i) increases in programming and other direct costs, (ii) the impact of a new revenue-based tax that was imposed in Hungary during the fourth quarter of 2010, (iii) net increases in bad debt and collection expenses and (iv) net decreases in interconnect and access charges.

#### *SG&A expenses*

Our SG&A expenses increased €4.5 million and €15.3 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These increases include €0.6 million and €0.7 million, respectively, attributable to the impact of acquisitions. Our SG&A expenses include stock-based compensation expense, which decreased €2.0 million and €3.2 million during the three and six months ended June 30, 2011, respectively. For additional information, see the discussion in the following paragraph. Excluding the effects of acquisitions, FX and stock-based compensation expense, our SG&A expenses increased €2.1 million or 1.4% and €7.4 million or 2.5% during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. As discussed in more detail under *Discussion and Analysis of our Reportable Segments - SG&A Expenses* above, these increases generally reflect (i) increases in personnel costs and (ii) 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 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 LGI stock incentive awards held by certain employees of our subsidiaries. A summary of the aggregate stock-based compensation expense that is included in our operating and SG&A expenses is set forth below:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	in millions			
LGI common stock:				
LGI performance-based incentive awards (a) .....	€ 1.3	€ 2.2	€ 2.4	€ 4.6
Other LGI stock-based incentive awards .....	2.0	2.5	4.0	4.5
Total LGI common stock .....	3.3	4.7	6.4	9.1
Other .....	—	1.1	0.2	1.4
Total .....	€ 3.3	€ 5.8	€ 6.6	€ 10.5
Included in:				
Operating expense .....	€ 0.3	€ 0.8	€ 0.6	€ 1.3
SG&A expense .....	3.0	5.0	6.0	9.2
Total .....	€ 3.3	€ 5.8	€ 6.6	€ 10.5

(a) Includes stock-based compensation expense related to the LGI Performance Plans and LGI PSUs.

For additional information concerning our stock-based compensation, see note 10 to our condensed consolidated financial statements.

*Depreciation and amortization expense*

Our depreciation and amortization expense decreased €4.8 million and €11.0 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. Excluding the effects of FX, depreciation and amortization expense decreased €12.8 million or 5.2% and €29.6 million or 6.0%, respectively. These decreases are due primarily to the net effect of (i) increases associated with capital expenditures related to the installation of customer premises equipment, the expansion and upgrade of our networks and other capital initiatives, (ii) decreases associated with certain assets becoming fully depreciated, primarily in the Netherlands, Chile and Switzerland and (iii) net decreases associated with changes in the useful lives of certain assets, primarily in the Netherlands.

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

We recognized impairment, restructuring and other operating charges, net, of €1.3 million and €3.6 million during the three and six months ended June 30, 2011, respectively, compared to €3.9 million and €5.8 million, respectively, during the corresponding periods in 2010. The amount for the 2010 six-month period includes a second quarter 2010 restructuring charge of €2.9 million, representing certain dish-turning and duplicative satellite costs incurred in connection with UPC DTH's migration to a new satellite.

As of our October 1, 2010 goodwill impairment test date, our broadband communications reporting units in Hungary and the Czech Republic each had an excess of fair value over carrying value of less than 20%. As of June 30, 2011, these reporting units had goodwill aggregating €643.2 million. If, among other factors, (i) our or our subsidiaries' equity values decline significantly or (ii) the adverse impacts of economic, competitive or regulatory factors are worse than anticipated, we could conclude in future periods that further impairment charges are required in order to reduce the carrying values of our goodwill, and to a lesser extent, other long-lived assets. Any such impairment charges could be significant.

*Interest expense - third party*

Our third-party interest expense increased €15.3 million and €22.2 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. Excluding the effects of FX, third-party interest expense increased €15.3 million or 13.8% and €22.1 million or 9.9%, respectively. These increases are primarily attributable to (i) higher

weighted average interest rates and (ii) higher average outstanding debt balances. The increase in our weighted average interest rates is primarily related to (i) the completion of refinancing transactions that generally resulted in extended maturities and higher interest rates and (ii) increases in the base borrowing rates for certain of our variable-rate indebtedness. For additional information regarding our outstanding indebtedness, see note 7 to our condensed consolidated financial statements.

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.

#### *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 €59.7 million and €128.5 million during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010. These increases reflect the effect of (i) an increase in the weighted average interest rate on our shareholder loan from 4.80% during the 2010 periods to 7.75% during the 2011 periods and (ii) a slight increase in the average outstanding balance of our shareholder loan during the six months ended June 30, 2011, as compared to the prior year period. For additional information, see notes 7 and 11 to our condensed consolidated financial statements.

#### *Interest income*

Our interest income increased (decreased) €0.6 million and (€1.2 million) during the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010. These changes are primarily attributable to the net impact of (i) slightly higher weighted average interest rates earned on our cash and cash equivalent and restricted cash balances, as average short-term market interest rates were higher during the first six months of 2011, as compared to the first six months of 2010, (ii) higher average cash and cash equivalent and restricted cash balances during the three-month period and (iii) lower average cash and cash equivalent and restricted cash balances during the six month period.

#### *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 derivative contracts are fully or partially settled and (ii) realized gains (losses) upon the full or partial settlement of the derivative contracts. The details of our realized and unrealized losses on derivative instruments, net, are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	in millions			
Cross-currency and interest rate derivative contracts (a) .....	€ (295.1)	€ (17.0)	€ (251.0)	€ (307.7)
Foreign currency forward contracts.....	(24.7)	(6.5)	(28.4)	(3.3)
Embedded derivatives .....	0.3	(2.5)	0.7	(0.7)
Total.....	<u>€ (319.5)</u>	<u>€ (26.0)</u>	<u>€ (278.7)</u>	<u>€ (311.7)</u>

- (a) The loss during the 2011 three-month period is primarily attributable to the net effect of (i) losses associated with an increase in the value of the Swiss franc relative to the euro, (ii) losses associated with decreases in market interest rates in the Swiss franc, euro, Polish zloty, Chilean peso and Czech koruna markets, (iii) losses associated with increases in the value of the Swiss franc and Chilean peso relative to the U.S. dollar and (iv) losses associated with a decrease in the value of the U.S. dollar relative to the euro. The loss during the 2011 six-month period is primarily attributable to the net effect of (i) losses associated with increases in the values of the Swiss franc and Romanian lei relative to the U.S. dollar, (ii) losses associated with increases in the values of the Swiss franc, Hungarian forint and Czech koruna relative to the euro, (iii) losses associated with a decrease in the value of the U.S. dollar relative to the euro, (iv) gains associated with increases in market interest rates in the euro, Chilean peso and Romanian lei markets, (v) gains associated with a decrease in the value of the Chilean peso relative to the euro, and (vi) losses associated with decreases in market interest rates in the Hungarian forint market. In addition, the losses during the 2011 periods include net gains of €45.6 million and €27.0 million, respectively, resulting from changes in our credit risk valuation adjustments. See notes 4 and 5 to our condensed consolidated financial statements. The loss during the 2010 three-month period is primarily attributable to

the net effect of (i) gains associated with decreases in the values of the euro, Romanian lei and Chilean peso relative to the U.S. dollar, (ii) losses associated with an increase in the value of the Swiss franc relative to the euro, (iii) losses associated with decreases in market interest rates in the euro and Swiss franc markets and (iv) gains associated with decreases in the values of the Hungarian forint and Polish zloty relative to the euro. The loss during the 2010 six-month period is primarily attributable to the net effect of (i) losses associated with decreases in market interest rates in the euro, Swiss franc, Romanian lei, Hungarian forint, Czech koruna and Polish zloty markets, (ii) gains associated with decreases in the values of the euro, Chilean peso, Romanian lei and Swiss franc relative to the U.S. dollar and (iii) losses associated with increases in the values of the Swiss franc and Chilean peso relative to the euro. In addition, the losses during the 2010 periods include net gains of €24.1 million and €51.7 million, respectively, resulting from changes in our credit risk valuation adjustments.

For additional information concerning our derivative instruments, see note 4 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
	in millions			
U.S. dollar denominated debt issued by European subsidiaries.....	€ 31.6	€ (228.9)	€ 137.4	€ (359.3)
Intercompany payables and receivables denominated in a currency other than the entity's functional currency (a).....	61.2	(43.2)	64.9	71.6
Cash and restricted cash denominated in a currency other than the entity's functional currency.....	(0.1)	1.1	(3.3)	20.7
U.S. dollar denominated debt issued by a Chilean subsidiary .....	—	—	—	(13.0)
Other.....	1.5	(3.9)	1.7	(5.0)
Total.....	€ 94.2	€ (274.9)	€ 200.7	€ (285.0)

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

*Gains (losses) on debt modification and extinguishment, net*

We recognized gains (losses) on debt modification and extinguishment, net, of (€0.1 million) and (€11.4 million) during the three and six months ended June 30, 2011, respectively, compared to (€2.3 million) and €1.1 million, respectively, during the three and six months ended June 30, 2010, respectively. The loss during the 2011 six-month period includes the write-off of €11.3 million of deferred financing costs and an unamortized discount during the first quarter in connection with the prepayment of amounts outstanding under Facilities M, P, T and U of the UPC Broadband Holding Bank Facility. For additional information, see note 7 to our condensed consolidated financial statements.

*Income tax expense*

We recognized income tax expense of €25.3 million and €23.8 million during the three months ended June 30, 2011 and 2010, respectively.

The income tax expense during the three months ended June 30, 2011 differs from the expected income tax benefit of €71.5 million (based on the Dutch 25.0% 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 items.

The income tax expense during the three months ended June 30, 2010 differs from the expected income tax benefit of €86.5 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 items.

We recognized income tax expense of €44.9 million and €34.7 million during the six months ended June 30, 2011 and 2010, respectively.

The income tax expense during the six months ended June 30, 2011 differs from the expected income tax benefit of €54.9 million (based on the Dutch 25.0% 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 items and (ii) a net increase in valuation allowances established against currently arising deferred tax assets in certain tax jurisdictions.

The income tax expense during the six months ended June 30, 2010 differs from the expected income tax benefit of €172.9 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 items.

For additional information concerning our income taxes, see note 8 to our condensed consolidated financial statements.

#### *Net loss*

During the three months ended June 30, 2011 and 2010, we reported losses of €311.2 million and €363.0 million, respectively, including (i) operating income of €227.2 million and €178.0 million, respectively, (ii) non-operating expense of €513.1 million and €517.2 million, respectively, and (iii) income tax expense of €25.3 million and €23.8 million, respectively.

During the six months ended June 30, 2011 and 2010, we reported losses of €264.5 million and €712.6 million, respectively, including (i) operating income of €442.2 million and €340.1 million, respectively, (ii) non-operating expense of €661.8 million and €1,018.0 million, respectively, and (iii) income tax expense of €44.9 million and €34.7 million, respectively.

Gains or losses associated with (i) changes in the fair values of derivative instruments, (ii) movements in foreign currency exchange rates and (iii) the disposition of assets and changes in ownership 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 earnings is largely dependent on our ability to increase our aggregate operating cash flow to a level that more than offsets the aggregate amount of our (a) stock-based compensation expense, (b) related-party fees and allocations, (c) depreciation and amortization, (d) impairment, restructuring and other operating charges, net, (e) interest expense, (f) other net non-operating expenses and (g) 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 *Material Changes in Financial Condition - Capitalization* below, we expect that we will continue to report significant levels of interest expense for the foreseeable future. For information concerning our expectations with respect to trends that may affect certain aspects of our operating results in future periods, see the discussion under *Overview* above. 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 (decreased) (€0.5 million) and €3.7 million during the three and six months ended June 30, 2011, respectively, as compared to the corresponding periods in 2010. These changes are primarily attributable to the impact of 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 operating subsidiaries have generated cash from operating activities, the terms of the instruments governing the indebtedness of UPC Broadband Holding 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 June 30, 2011. 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 June 30, 2011 are set forth in the following table. With the exception of UPC Holding, which is reported on a standalone 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.....	€	—
UPC Broadband Holding (excluding VTR).....		186.6
VTR.....		30.1
Total cash and cash equivalents.....	€	<u>216.7</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 and/or loans or contributions from LGE Financing (and ultimately LGI and other LGI subsidiaries).

The ongoing cash needs of UPC Holding include corporate general and administrative expenses and interest payments on the UPC Holding Senior Notes. 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, borrowing availability under the UPC Broadband Holding Bank Facility. For the details of the borrowing availability under the UPC Broadband Holding Bank Facility at June 30, 2011, see note 7 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 and (ii) loans or capital distributions to UPC Holding. 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 June 30, 2011 Senior Debt to annualized EBITDA (last two quarters annualized) for UPC Holding was 3.87 to 1.00 and the ratio of our June 30, 2011 Total Debt to annualized EBITDA (last two quarters annualized) was 4.72 to 1.00, with each ratio defined and calculated in accordance with the UPC Broadband Holding Bank Facility.

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 4 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 partially repay or limit our borrowings under the UPC Broadband Holding Bank Facility in order to maintain compliance with applicable covenants. No assurance can be given that we would have sufficient sources of liquidity, or that any external funding would be available on favorable terms, or at all, to fund any such required repayment. The ability to access available borrowings under the UPC Broadband Holding Bank Facility and/or our ability to complete additional financing transactions can also be impacted by the interplay of average and spot foreign currency rates with respect to leverage calculations under the indentures for UPC Holding's senior notes.

At June 30, 2011, our outstanding consolidated third-party debt and capital lease obligations aggregated €8,200.7 million, including €23.7 million that is classified as current in our condensed consolidated balance sheet and €7,991.7 billion that is due in 2014 or thereafter. For additional information concerning the maturities of our debt and capital lease obligations, see note 7 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 maturing debt grows in later years, we anticipate that we will seek to refinance or otherwise extend our debt maturities. No assurance can be given that we will be able to complete additional refinancing transactions or otherwise extend our debt maturities. In this regard, it is not possible to predict how economic conditions, sovereign debt concerns and/or any adverse regulatory developments could impact the credit and equity markets we access and accordingly, our future liquidity and financial position. However, (i) the financial failure of any of our counterparties 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) 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 adverse economic or regulatory developments, could have an unfavorable impact on our cash flows and liquidity.

With the exception of the UPC Holding Senior Notes, all of our consolidated third-party debt and capital lease obligations had been borrowed or incurred by our subsidiaries at June 30, 2011. For additional information concerning our debt, see note 7 to our condensed consolidated financial statements.

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

*General.* Our cash flows are subject to significant variations due to FX.

*Summary.* During the six months ended June 30, 2011, we used net cash provided by our operating activities of €545.2 million and net cash provided by our financing activities of €2.3 million to fund net cash used by our investing activities of €445.7 million and a €101.8 million increase in our cash and cash equivalents (excluding an €8.2 million decrease due to FX).

*Operating Activities.* Net cash provided by our operating activities decreased €30.6 million, from €575.8 million during the first six months of 2010 to €545.2 million during the first six months of 2011. This decrease in cash provided is primarily attributable to the net effect of (i) a decrease due to higher cash payments for interest, (ii) an increase in the cash provided by our operating cash flow and related working capital items, (iii) an increase due to lower cash payments related to derivative instruments, (iv) an increase in the reported net cash provided by operating activities due to FX and (v) a decrease due to higher cash payments for taxes.

*Investing Activities.* Net cash used by our investing activities increased €52.7 million during the six months ended June 30, 2011, from €393.0 million during the first six months of 2010 to €445.7 million during the first six months of 2011. This increase in cash used is due primarily to (i) an increase associated with higher cash paid in connection with acquisitions of €47.9 million and (ii) an increase due to higher capital expenditures of €17.0 million. Capital expenditures increased from €392.1 million during the first six months of 2010 to €409.1 million during the first six months of 2011, primarily due to FX.

UPC Europe accounted for €341.4 million and €314.5 million of our consolidated capital expenditures during the six months ended June 30, 2011 and 2010, respectively. These amounts exclude €18.2 million and €2.9 million of expenditures that were financed under capital lease and/or vendor financing arrangements, respectively. The increase in the capital expenditures of UPC Europe, excluding the impact of capital lease and vendor financed additions, is due primarily to (i) an increase in expenditures for new build and upgrade projects to expand services, (ii) an increase due to FX, (iii) an increase in expenditures for support capital such as information technology upgrades and general support systems and (iv) an increase in expenditures for the purchase and installation of customer premises equipment.

VTR accounted for €67.7 million and €77.6 million of our consolidated capital expenditures during the six months ended June 30, 2011 and 2010, respectively. The decrease in the capital expenditures of VTR is due primarily to the net effect of (i) a decrease in expenditures for the purchase and installation of customer premises equipment, (ii) an increase in expenditures for new build and upgrade projects, (iii) an increase due to FX and (iv) an increase in expenditures for support capital, such as information technology upgrades and general support systems.

*Financing Activities.* Net cash provided by our financing activities was €2.3 million during the first six months of 2011, compared to net cash used by financing activities of €142.6 million during the first six months of 2010. This change is primarily attributable to the net effect of (i) an increase in cash provided related to higher net borrowings of debt of €426.4 million and (ii) a decrease in cash provided related to higher net repayments of the shareholder loan of 287.5 million.

### ***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. We have also 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.

We are a party to various stockholder and similar agreements pursuant to which we could be required to make capital contributions to the entity in which we have invested or purchase another investor's interest. We do not expect any payments made under these provisions to be material in relationship to our financial position or results of operations.

## Contractual Commitments

As of June 30, 2011, the euro equivalents (based on June 30, 2011 exchange rates) of our consolidated contractual commitments are as follows:

		Payments due during:						
	Remainder of 2011	Year ended December 31,						Total
		2012	2013	2014	2015	2016	Thereafter	
		in millions						
Debt (excluding interest):								
Third party .....	3.0	147.2	51.6	783.1	290.7	2,219.4	4,724.3	8,219.3
Related party .....	—	—	—	—	—	—	8,210.9	8,210.9
Capital leases (excluding interest) .....	3.0	2.6	1.6	1.2	1.3	1.3	16.3	27.3
Operating leases .....	42.5	51.0	36.1	24.8	18.9	12.6	48.7	234.6
Programming, satellite and other purchase obligations .....	113.0	69.8	41.3	24.7	26.7	12.9	11.0	299.4
Other commitments .....	10.5	15.6	10.8	7.4	7.3	7.0	43.7	102.3
Total (a).....	€ 172.0	€ 286.2	€ 141.4	€ 841.2	€ 344.9	€ 2,253.2	€ 13,054.9	€17,093.8
Projected cash interest payments on debt and capital lease obligations (b).....								
	€ 246.6	€ 421.0	€ 482.1	€ 480.9	€ 456.2	€ 482.4	€ 927.4	€ 3,496.6

(a) The commitments reflected in this table do not reflect any liabilities that are included in our June 30, 2011 balance sheet other than debt and capital lease obligations. Our liability for uncertain tax positions in the various jurisdictions in which we operate (€4.0 million at June 30, 2011) has been excluded from the table as the amount and timing of any related payments are not subject to reasonable estimation. In addition, commitments arising from acquisition agreements, including the agreement to acquire Aster described in note 2 to our condensed consolidated financial statements, are not included in this table.

(b) Amounts are based on interest rates and contractual maturities in effect as of June 30, 2011. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. In addition, the amounts presented do not include the impact of our interest rate derivative agreements, deferred financing costs, discounts or commitment fees, all of which affect our overall cost of borrowing.

Programming commitments consist of obligations associated with certain of our programming contracts that are enforceable and legally binding on us in that we have agreed to pay minimum fees, without regard to (i) the actual number of subscribers to the programming services, (ii) whether we terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems, or (iii) whether we discontinue our premium film or sports services. The amounts reflected in the table with respect to these contracts are significantly less than the amounts we expect to pay in these periods under these contracts. Payments to programming vendors have in the past represented, and are expected to continue to represent in the future, a significant portion of our operating costs. In this regard, during the six months ended June 30, 2011 and 2010, our programming and copyright costs aggregated €233.9 million and €211.9 million, respectively. Satellite commitments consist of obligations associated with satellite carriage services provided to our company. Other purchase obligations include commitments to purchase customer premises equipment that are enforceable and legally binding on us. Other commitments include certain fixed minimum contractual commitments associated with our agreements with franchise or municipal authorities.

In addition to the commitments set forth in the table above, we have significant commitments under derivative instruments pursuant to which we expect to make payments in future periods. For information concerning projected cash flows associated with these derivative instruments, see *Projected Cash Flows Associated with Derivatives* below. For additional information concerning our derivative instruments, including the net cash paid or received in connection with these instruments during the three and six months ended June 30, 2011 and 2010, see note 4 to our condensed consolidated financial statements.

We also have commitments pursuant to agreements with, and obligations imposed by, franchise authorities and municipalities, which may include obligations in certain markets to move aerial cable to underground ducts or to upgrade, rebuild or extend portions



of our broadband distribution systems. Such amounts are not included in the above table because they are not fixed or determinable.

### ***Projected Cash Flows Associated with Derivatives***

The following table provides information regarding the projected cash flows associated with our derivative instruments. The euro equivalents presented below are based on interest rates and exchange rates that were in effect as of June 30, 2011. These amounts are presented for illustrative purposes only and will likely differ from the actual cash payments required in future periods. For additional information regarding our derivative instruments, see note 4 to our condensed consolidated financial statements.

		Payments (receipts) due during:								
		Remainder of 2011	Year ended December 31,							
			2012	2013	2014	2015	2016	Thereafter	Total	
		in millions								
Projected derivative cash receipts (payments), net:										
Interest-related (a) .....	€	157.3	€ 361.0	€ 279.9	€ 369.5	€ 84.5	€ 145.7	€ (72.5)	€	1,325.4
Principal-related (b).....		—	62.1	—	383.4	12.7	217.7	101.5		777.4
Other.....		(0.6)	0.5	—	—	—	0.4	9.3		9.6
Total.....	€	156.7	€ 423.6	€ 279.9	€ 752.9	€ 97.2	€ 363.8	€ 38.3	€	2,112.4

(a) Includes the cash flows of (i) our interest rate swap instruments and (ii) the interest-related cash flows of our cross-currency and cross-currency interest rate swap instruments.

(b) Includes the principal-related cash flows of our cross-currency and cross-currency interest rate swap instruments.