

Annual Report for Year Ending December 31, 2011

KABEL BW ERSTE BETEILIGUNGS GMBH Im Breitspiel 2 - 4 69126 Heidelberg Germany

TABLE OF CONTENTS

| FORWARD-LOOKING STATEMENTS | ii |
|---|-------|
| BUSINESS | I-1 |
| MANAGEMENT | I-19 |
| DESCRIPTION OF INDEBTEDNESS | I-22 |
| MATERIAL CONTRACTS | I-25 |
| CONSOLIDATED FINANCIAL STATEMENTS | II-1 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | III-1 |
| SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED) | IV-1 |

FORWARD-LOOKING STATEMENTS

Certain statements in this annual report constitute forward-looking statements. To the extent that statements in this annual report are not recitations of historical fact, such statements constitute forwardlooking 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 Business (including, but not limited to, Competition, Regulatory Matters, Intellectual Property and Legal Proceedings), Material Contracts and Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements, including statements regarding our future projected contractual commitments, our expectations with respect to our growth prospects and our strategic initiatives over the next few years, our expectations regarding our percentage of revenue represented by our capital expenditures in 2012, our business, product and finance strategies, our capital expenditures, subscriber growth and retention rates, competitive, regulatory 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. 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 markets in which we operate;
- the competitive environment in the broadband communications and programming industries in Germany, including competitor responses to our products and services;
- fluctuations in currency exchange rates and interest rates;
- instability in global financial markets, including sovereign debt issues in the European Union (EU) and related fiscal reforms;
- 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 our existing service offerings, including our digital video, broadband internet and telephony services, and of new technology, programming alternatives and broadband services that we may offer in the future;
- our ability to manage rapid technological changes;
- our ability to renew existing contracts with housing associations and Professional Operators (as
 defined in this annual report), especially in light of the conditions imposed on us as a result of
 the LGI/KBW Transaction (as described below);
- 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 markets 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 the impact of conditions imposed by competition and other regulatory authorities in connection with acquisitions, including the impact of the conditions imposed in connection with the LGI/KBW Transaction on our operations;
- our ability to successfully negotiate rate increases where applicable;
- changes in laws or treaties relating to taxation, or the interpretation thereof, in the markets 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;
- 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;
- 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 realize anticipated efficiencies from the businesses we or Liberty Global (as defined in this annual report) acquire;
- problems we may discover post-closing with the operations, including the internal controls and financial reporting process, of businesses we acquire;
- our availability to maintain or increase our revenue from channel carriage arrangements;
- the outcome of any pending or threatened litigation;
- the loss of key employees and the availability of qualified personnel;
- changes in the nature of key strategic relationships with partners;
- changes in the nature of key relationships with Deutsche Telekom (as defined in this annual report) and certain of its affiliates for the access and operation of a significant portion of our network:
- our ability to successfully interact with labor councils and unions; and
- events that are outside of our control, such as political unrest in international markets, terrorist attacks, malicious human acts, natural disasters, pandemics and other similar events.

The broadband distribution services industries are changing rapidly and, therefore, the forward-looking statements of expectations, plans and intent in this annual 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 annual 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.

BUSINESS

In this annual report, unless the context otherwise requires, the terms "we," "our," "our company," "us" and "Kabel BW" refer to Kabel BW Erste Beteiligungs GmbH and its consolidated subsidiaries. Unless otherwise indicated, operational and statistical data, including subscriber statistics and product offerings, are as of December 31, 2011.

Introduction

We operate a broadband cable network in the federal state of Baden-Württemberg, Germany, providing digital and analog cable television and broadband internet and telephony services to our customers. The federal state has a population and combined number of households of 10.8 million and 5.0 million, respectively, and includes the cities of Heidelberg, Karlsruhe, Mannheim and Stuttgart. We are the third largest cable operator in Germany in terms of the number of video subscribers and we are a subsidiary of Liberty Global, Inc. (Liberty Global). Liberty Global is a leading international cable operator offering advanced video, voice and broadband internet services to connect its customers to the world of entertainment, communications and information. As of December 31, 2011, Liberty Global's continuing businesses operated state-of-the-art networks serving 20 million customers across 13 countries principally located in Europe and Chile. Liberty Global's operations also include significant programming businesses such as Chellomedia in Europe.

On December 15, 2011, UPC Germany HoldCo 2 GmbH (UPC Germany HC2), a wholly-owned subsidiary of Liberty Global, purchased (the LGI/KBW Transaction) all of the outstanding shares of Kabel BW Musketeer GmbH (KBW Musketeer), our parent company, from Oskar Rakso S.à r.l, Luxembourg (Oskar Rakso) for €1,062.4 million in cash (the KBW Purchase Price). The KBW Purchase Price, together with our consolidated net debt at December 15, 2011 (aggregate fair value of debt outstanding less cash and cash equivalents) of €2,113.2 million resulted in total consideration of €3,175.6 million before direct acquisition costs. The acquisition was completed in order to achieve certain financial, operational and strategic benefits through the integration of our company with Unitymedia GmbH (Unitymedia), Liberty Global's existing broadband communications operator in Germany, and, to a lesser extent, with Liberty Global's other broadband communications operations in Europe. The German Federal Cartel Office (FCO) conditioned its approval of the LGI/KBW Transaction upon the agreement of our company and Unitymedia with several conditions primarily concerning certain agreements and relationships our company and Unitymedia have with housing associations and the encryption of digital free-to-air television services. For more information regarding these conditions, see "—Regulatory Matters—LGI/KBW Transaction Imposed Conditions".

We classify our customers based on our main subscription-based business activities. The following table shows our operating statistics as of December 31, 2011 and 2010.

| | December 31, | | |
|-------------------------------------|--------------|-----------|--|
| | 2011 | 2010 | |
| <u>Footprint</u> | | | |
| Homes Passed ⁽¹⁾ | 3,771,100 | 3,736,500 | |
| Two-way Homes Passed ⁽²⁾ | 3,729,600 | 3,695,400 | |
| Subscribers (RGUs ⁽³⁾) | | | |
| Analog Cable ⁽⁴⁾ | 2,076,200 | 2,100,800 | |
| Digital Cable ⁽⁵⁾ | 248,000 | 214,800 | |
| Total Video | 2,324,200 | 2,315,600 | |
| Internet ⁽⁶⁾ | 767,000 | 627,100 | |
| Telephony ⁽⁷⁾ | 803,300 | 656,300 | |
| Total RGUs | 3,894,500 | 3,599,000 | |

| <u>Penetration</u> | | |
|---|-----------|-----------|
| Digital Cable as % of Total Video Subs ⁽⁸⁾ | 10.7% | 9.3% |
| Internet as % of Two-way Homes Passed ⁽⁹⁾ | 20.6% | 17.0% |
| Telephony as % of Two-way Homes Passed ⁽⁹⁾ | 21.5% | 17.8% |
| <u>Customer relationships</u> | | |
| Customer Relationships ⁽¹⁰⁾ | 2,397,400 | 2,352,700 |
| RGUs per Customer Relationship | 1.62 | 1.53 |
| Customer bundling | | |
| Single-Play | 66.5% | 72.1% |
| Double-Play | 4.6% | 2.8% |
| Triple-Play | 28.9% | 25.1% |

- (1) Homes Passed are homes or residential multiple dwelling units that can be connected to our network without materially extending the distribution plant. Our Homes Passed counts are based on census data that can change based on either revisions to the data or from new census results.
- (2) Two-way Homes Passed are Homes Passed by those sections of our network that are technologically capable of providing two-way services, including video, internet and telephony services, up to the street cabinet, with drops from the street cabinet to the building generally added, and in-home wiring generally upgraded, on an as-needed, success-based basis.
- (3) Revenue Generating Unit or RGU is separately an Analog Cable Subscriber, Digital Cable Subscriber, Internet Subscriber or Telephony Subscriber. A home or residential multiple dwelling unit may contain one or more RGUs. For example, if a residential customer subscribed to our digital cable service, telephony service and broadband internet service, the customer would constitute three RGUs. Total RGUs is the sum of Analog Cable, Digital Cable, Internet and Telephony Subscribers. RGUs generally are counted on a unique premises basis such that a given premises does not count as more than one RGU for any given service. On the other hand, if an individual receives one of our services in two premises (e.g., a primary home and a vacation home), that individual will count as two RGUs for that service. Each bundled cable, internet or telephony service is counted as a separate RGU regardless of the nature of any bundling discount or promotion. Non-paying subscribers are counted as subscribers during their free promotional service period. Some of these subscribers may choose to disconnect after their free service period.
- (4) Analog Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives our analog or basic unencrypted digital cable service over our broadband network. In light of the fact that our digital free-to-air television channels are not encrypted, the Analog Cable Subscriber count also includes subscribers who may use a purchased set-top box or other non-verifiable means to receive our unencrypted basic digital cable channels without subscribing to any services that would require the payment of recurring monthly fees in addition to the basic analog service fee (Basic Digital Cable Subscriber). We acquired 14,300 Analog Cable Subscribers through third-party transactions during 2010.
- (5) Digital Cable Subscriber is a home, residential multiple dwelling unit or commercial unit that receives any of our digital cable offerings that require the payment of recurring monthly fees in addition to the basic cable services fee. Basic Digital Cable Subscribers are not included in the Digital Cable Subscriber count. We count a subscriber with one or more rented digital converter boxes or one or more premium digital cable services that receives our digital cable service in one premises as just one subscriber. A Digital Cable Subscriber is not counted as an Analog Cable Subscriber.
- (6) Internet Subscriber is a home, residential multiple dwelling unit or commercial unit that receives internet services over our network. Our Internet Subscribers do not include customers that receive services from dial-up connections.
- (7) Telephony Subscriber is a home, residential multiple dwelling unit or commercial unit that receives voice services over our network. Telephony Subscribers exclude mobile telephony subscribers. As of December 31, 2011, we had 79,900 subscriber identification module (SIM) cards in use with respect to our mobile services.
- (8) Digital cable penetration is calculated by dividing digital cable RGUs by the total of digital and analog cable RGUs. Note that this calculation is intended to measure the penetration of Digital Cable Subscribers, as defined above, and not the percentage of our video RGUs that are accessing our unencrypted digital cable channels.

- (9) Internet and telephony penetration is calculated by dividing the internet and telephony RGUs by Two-way Homes Passed.
- (10) Customer Relationships are the number of customers who receive at least one of our video, internet or voice services that we count as RGUs, without regard to which, or to how many services they subscribe. Customer Relationships generally are counted on a unique premises basis. Accordingly, if an individual receives our services in two premises (e.g., primary home and vacation home), that individual will count as two Customer Relationships.

As a result of the LGI/KBW Transaction, we have changed how we count our video and telephony subscribers to conform to Liberty Global's subscriber counting policies. Previously, we counted pay-TV RGUs as incremental RGUs in addition to the underlying basic cable RGUs. Under Liberty Global's subscriber counting policies, we now split the basic cable RGUs into analog cable and digital cable categories and pay-TV RGUs are no longer separately counted as RGUs. Also, the analog cable subscriber count includes subscribers who may use a purchased set-top box or other non-verifiable means to receive our unencrypted basic digital channels without subscribing to any services that would require the payment of recurring monthly fees in addition to the basic analog service fee. With respect to telephony subscribers, we no longer include mobile telephony RGUs in our subscriber counts, although we do disclose the number of SIM cards we have in use in footnote 7 above. Prior period figures have been conformed to the new subscriber counting policies and further adjustments to our subscriber counting polices are possible as we continue the integration process with Liberty Global.

We were formed on January 27, 2006 as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) with our registered office in Heidelberg, Germany. We are registered with the commercial registry of the Mannheim local court under number HRB B 701726, Mannheim. Our principal business address is 69126 Heidelberg, Im Breitspiel 2-4, Germany. A copy of this annual report and our quarterly reports and our other releases since the completion of the LGI/KBW Transaction are available on Kabel BW's (www.kabelbw.de) and Liberty Global's (www.lgi.com) websites. None of the information posted on either of these websites is incorporated into this annual report.

Products and Services

We currently provide digital and analog cable television and radio services, including premium digital cable services, to customers in the federal state of Baden-Württemberg, Germany. In addition, in the upgraded portion of our network coverage area (which covers virtually all of our total network coverage area), we offer our customers access to triple-play (and, in some cases, quadruple-play) services consisting of digital cable video, broadband internet and telephony. The upgraded portion of our network provides us with full bi-directional capability that enables us to provide premium digital cable services, broadband internet service at very high speeds and telephony services. Through our partnership with Telefónica Germany GmbH & Co. OHG (Telefónica Germany) we offer our customers mobile services.

We generate revenue principally from relationships with our customers who pay subscription fees for the services provided. Subscription fees for basic cable video services are typically paid directly by single family homes (or single dwelling units) subscribing to the service or, in the case of multi-dwelling units, we enter into a bulk contract with the owner or housing association of the multi-dwelling structure based on the number of units connected. Single family home customers also pay us directly for the subscription fees associated with our premium digital cable services, as well as the broadband internet and telephony services they purchase from us. Generally, the owner of a multi-dwelling unit allows us to sell digital cable (including our premium digital cable services), broadband internet and telephony services directly to individual tenants. In addition, we are compensated by public and commercial broadcasters, which pay carriage fees for the transmission and distribution of their free-to-air television and audio signals via our network.

Video Business

We market our video services under the integrated "Kabel BW" brand and offer a full range of video services that include basic, digital and premium television offerings. Our premium digital cable services include premium subscription channels, high definition (HD) channels, digital video recorder (DVR) functionality, HD DVR, an electronic programming guide and video-on-demand (VoD). To receive

our digital services, a subscriber must either purchase from a third party or us, or rent from us, a set-top box, or have an integrated digital tuner in the television set. We do not encrypt our basic digital television services; therefore, a smart card for basic digital television is not required. A smart card is required to receive certain premium digital cable services, like VoD, HD and premium subscription channels. In some circumstances, a customer may use a CI+ module to access our digital services. A CI+ module is a small device that allows customers with a "common interface plus" (CI+) enabled television set, who subscribe to, or otherwise have access to, our digital video service, to view such services without a set-top box. A set-top box is not required to receive our analog services. Our network passes 3.8 million homes or 75% of all households in Baden-Württemberg.

There are 248,000 RGUs that subscribe to our digital products and 2.1 million RGUs that subscribe to our basic package of television channels. We continue to upgrade our systems to expand our digital service offerings and encourage our analog subscribers to convert to a digital service, so that customers have access to our premium digital cable services. As of December 31, 2011, the percentage of our overall video subscribers that subscribed to our premium digital cable services was 10.7%, compared to 9.3% as of December 31, 2010.

We offer transactional VoD pursuant to an agreement with On Demand Deutschland GmbH & Co. KG (ODD). To receive VoD, a customer must have a suitable interactive receiver or set-top box and a smart card and pay a fee for each movie the customer accesses through the service. The remuneration we pay to ODD for the VoD service is based on the price paid by customers for each transaction.

Basic and Digital Cable Services. Our basic cable product offers up to 150 digital channels (including five HD channels), up to 38 analog channels and 150 radio channels. We provide basic cable services primarily via individual contracts with customers or collective contracts with landlords and housing associations. We regularly update our basic cable program offerings to reflect changes in viewer interest.

Premium Digital Cable Services. Our premium digital cable services include HD channel offerings, DVR functionality, VoD, which currently offers 1,500 movies, and premium subscription programming that we assemble into packages. We rent or sell to our basic cable subscribers HD interactive set-top boxes and HD DVR set-top boxes so they can access these premium digital cable services.

We assemble our premium subscription channels into packages. We offer four genre-based premium packages with different program contents: "MeinTV Spielfilm & Serie" offering movies and series, "MeinTV Sport & Action" including sports and adult channels, "MeinTV Doku & Lifestyle" containing documentaries and channels with lifestyle content, and "MeinTV Kids & Music" including specific content for children as well as music. Each of these premium packages can be ordered individually for a monthly fee, or they can all be bundled together for a discounted monthly fee. Discounted premium rates apply if customers subscribe to bundled services comprising premium TV and internet and telephony (CleverFlat Entertainment). In the aggregate, "MeinTV" offers 50 premium channels within eight genres (movies, series, documentaries, lifestyle, kids, music, sports and adult).

In addition, to further fuel the digital conversion, we launched a CI+ module that allows those video households with an enabled HD television set to watch digital or HD content without a separate set-top box for an additional monthly subscription fee. Our video subscribers can also receive up to 40 HD channels, which is the highest number of HD channel offerings among our German peers. In addition to the unencrypted five HD channels, our customers can receive eight HD channels from private broadcasters in our premium HD package "MeinTV HD Plus" for a monthly fee. The premium HD package "MeinTV HD Komplett" offers an additional 13 HD channels, and 14 HD channels can be received via the premium video packages offered by Sky Deutschland AG (Sky Deutschland) pursuant to an arrangement we have with Sky Deutschland. For more details regarding our arrangement with Sky Deutschland, see "Material Contracts—Other Significant Supply Contracts—Sky Deutschland".

We also offer foreign language packages under the brand "MeinTV International." MeinTV International offers channels in 14 languages (Albanian, Arabic, Bosnian, Croatian, English, French, Greek, Italian, Polish, Portuguese/Spanish, Russian, Serbian and Turkish). Our video subscribers may also subscribe to premium content offered by Sky Deutschland, including *Bundesliga* and Champions League soccer, under the brand "CleverFlat Entertainment Sky" on a bundled basis, together with a 50 Mbps

internet flat rate and fixed-line telephone flat rate for calls within Germany. Sky Deutschland's premium content is also offered to our video customers on a standalone basis.

Liberty Global plans to introduce a next generation set-top box platform, which we refer to as "Horizon", in Germany in 2012. Horizon, which is currently undergoing field trials, is a multimedia home gateway based on an internet protocol-based digital television-platform that is capable of distributing video, voice and data content throughout the home and to multiple devices, such as tablets and smart phones. Horizon provides a seamless intuitive way to access live, time-shifted, on-demand and webbased content on the television. In addition, an online viewing service will be available through personal computers and will allow online viewing through IP-connected devices and smart phones. This service in conjunction with the Horizon gateway will allow subscribers to view and share their television programming on multiple screens wirelessly throughout the home.

Our Customers. We divide our basic cable subscribers into two specific market segments: residential subscribers in single-dwelling units (SDUs) and subscribers in multi-dwelling units (MDUs). Each market segment is targeted with tailored marketing, sales and advertising techniques.

In the SDU market segment, residential subscribers typically enter into standard form contracts with us. We have a direct customer relationship to individual homes with 900,000 RGUs, or 38% of our total video RGUs, and we deliver targeted marketing directly to our residential subscribers.

In the MDU market segment, subscription fees are paid by housing or condominium associations, administrators, landlords, other third parties that own or manage the MDUs and third parties (Professional Operators) that operate and administer the in-building network on behalf of housing associations. Of our video RGUs, 62% are with MDUs. We either enter into a signal delivery agreement with a housing association or landlord under which we supply our signal to the connection point or a concession agreement that allows for exclusive provision of video, broadband internet and telephony services directly to end customers. In addition, we may also maintain and operate the network required to deliver the signal into the tenant's home where we have entered into modernization agreements with housing or condominium associations, administrators, landlords and others under which we modernize the relevant in-house networks and receive a building cost allowance (Baukostenzuschuss) in some instances. In return, we have the exclusive right to use the respective in-house network and to serve the respective households with broadband cable services. In all cases, we invoice the housing association for our fees relating to basic cable services and offer our premium digital cable, broadband internet and telephony services directly to the tenants. Thus, we create a relationship with such subscribers for all our advanced services beyond the basic cable services, unless we are prohibited from doing so by the housing association. In order to provide these advanced services to tenants who request them, we add a drop to connect our distribution network to the building and upgrade the in-home wiring, on an asneeded or success-based basis.

Within our MDU base, we also offer our services to Professional Operators, also sometimes referred to as "level 4 operators". Professional Operators procure basic television signals from us and generally resell them to housing associations. Professional Operators generally enjoy volume-based discounts built into our standard rate card, which create incentives for these operators to cluster their subscribers behind individual connection points. Historically, our agreements with Professional Operators have included additional volume-based rate discounts to our standard rate card. Operator-specific discounts, when combined with volume-based discounts built into the standard rate card, have traditionally resulted in a substantially lower average revenue per unit within this customer segment. However, our costs associated with these customers are also lower for a variety of reasons, particularly because we are not responsible for certain activities such as customer care, which the Professional Operators provide.

Although the majority of our service agreements with housing associations have multi-year terms, in connection with the LGI/KBW Transaction, our company and Unitymedia have agreed to grant early termination rights on certain agreements that our company and Unitymedia each have with the largest housing associations and which have a remaining term of more than three years. For additional information concerning the commitments our company and Unitymedia made to regulators in connection with the LGI/KBW Transaction, see "Regulatory Matters—LGI/KBW Transaction Imposed Conditions" below.

Cable Service and Subscription Fees. Subscribers in SDUs to either our analog or our basic digital access product are charged a set monthly subscriber fee. The pricing under certain multi-user contracts is based on standard rate card or on individual rates with discount reduction for lump sum contracts. Subscription fees for our basic analog cable television services for customers with MDUs are based on our standard rate card. The rate card is based on the number of dwelling units connected to each connection point to the end-customers' premises. In order to upgrade to premium digital cable services, tenants in MDUs have the option to enter into a direct contract with us and pay an additional monthly fee for such services. Any such fee is in addition to the basic analog cable fee that the landlord pays to us and that is passed on to the tenant as part of the monthly utility bill.

In addition to the monthly subscription fees, subscribers generally pay an activation fee upon connecting or re-connecting to our network. This activation fee is sometimes waived for larger MDU customers, when a subscriber is reconnecting to our network, when a customer moves into a previously connected household or as part of periodic marketing promotions.

Broadband Internet

Virtually all of the 3.8 million homes passed in our network are upgraded for two-way communication, and we provide our broadband internet services to 767,000 RGUs. We have expanded the availability of our ultra high-speed broadband internet services through the deployment of EuroDOCSIS 3.0 (an international standard that defines requirements for a data transmission over a cable system) capable equipment.

We market our broadband internet services through a product portfolio under the brand name "Kabel BW" with particular focus on our bundled triple-play offerings. Of our customers, 29% subscribe to our cable video, broadband internet and telephony services. In addition to our basic or premium digital cable services, customers can also subscribe to our broadband internet and telephony products. For example, our CleverFlat Entertainment contains download speeds of 50 Mbps, fixed-telephony at a flat rate and either a "MeinTV" package or a Sky Deutschland premium video package. We also offer double-play bundles to customers that do not subscribe to our video products. As an example, one of these packages offers high-speed internet ranging from 12 Mbps up to 100 Mbps and a telephony flat rate to German fixed-lines. Since September 2011, the quadruple-play products "CleverAll Classic" and "CleverAll Power" have been added to our product portfolio, offering bandwidths of 32 Mbps up to 100 Mbps and including video, broadband internet, fixed-telephony and mobile services. Since September 2009, internet and telephony products can also be purchased without subscribing to our basic analog cable services.

We also offer additional services included with our broadband internet bundled packages, including an internet security package consisting of anti-virus, anti-spy, firewall, spam protection and a child-proof lock. We charge the customer a monthly fee for each of these add-on services following a free trial period.

Telephony

We provide our telephony services to 803,300 RGUs. In line with our broadband internet portfolio, we offer telephony services via voice-over-internet-protocol (VoIP) technology on a standalone basis and bundled with broadband internet services. "Clever Telefon" is our single-play product, offering a telephony German fixed-line flat rate. The telephony products offered as part of these packages include a flat rate connection for unlimited calls to landlines in Germany. Telephony subscribers can also subscribe to "International Flat" or "International Flat Plus," an option that can be added to existing telephony contracts for an additional monthly charge. Our international flat rates "International Flat" and "International Flat Plus" allow subscribers to make landline calls without any time restrictions to 25 and 75 countries, respectively. Additional telephony options are "ISDN," offering up to six fixed-line telephony numbers, and "Easy2Mobile," under which customers can benefit from reduced charges for German fixed-line to German mobile lines.

Our telephony services use VoIP as the method of transporting voice over our cable network. Analog voice information is digitally encoded and converted into packets, and then sent to their destinations via our own telephony switches. We pay interconnection fees to other internet and telephony

providers when our subscribers connect with another network and receive similar fees from providers when their users connect with our network through interconnection points.

Carriage Fees

We charge television broadcasters carriage fees for delivering their free-to-air television channels (as opposed to channels marketed in premium subscription packages) over our network. We have entered into feed-in agreements with all large German broadcasters (including public and commercial broadcasters) pursuant to which they pay us fees for the distribution of digital and analog signals. We also charge carriage fees for radio signals delivered over the network into subscriber homes. In general, carriage fees for digital and analog channels are charged on a monthly basis, depending on the number of subscribers.

During 2011, we started to carry the HD channels from private German commercial broadcasters ProSiebenSAT.1 group and RTL group on our network, bringing the total number of HD channels to 40. We are currently negotiating with other broadcasters to extend our feed-in agreements to HDTV. We invoice the carriage fees directly to all broadcasters. These fees, which represented approximately 5% of our total revenue during 2011, are subject to contracts that expire or are otherwise terminable by either party at various dates ranging from 2012 through 2015. No assurance can be given that these contracts will be renewed or extended on financially equivalent terms, or at all. For more information regarding our feed-in agreements, see "Material Contracts—Other Significant Supply Contracts—Feed-in Agreements".

Business Services

Since April 2011, we have offered broadband internet and telephony services to home offices as well as small and medium sized enterprises. These offers are characterized by distinctive features that are included in the bundles, but not in the residential products. In particular, the features comprise more extensive customer service guarantees and technical characteristics. Our three business products, "CleverPro Starter," "CleverPro Classic" and "CleverPro Power", vary among download and upload speeds of 25 Mbps and 2 Mbps, over 50 Mbps and 4 Mbps and up to 100 Mbps and 6 Mbps, respectively. These offers include broadband internet and German fixed-line telephony flat rates, a static IP-address and other value-added features.

Mobile

Our full mobile service portfolio has been available since November 2010 (we initially started to offer mobile data services in July 2010) when we commenced offering a broad range of mobile services under our cooperation agreement with the mobile phone network operator Telefónica Germany. Mobile services are presently offered as an option to our broadband internet and telephony subscribers. They are not offered on a standalone basis. Calls placed by our mobile phone subscribers into our fixed-line network or our mobile network are free-of-charge. Out-of-network calls are billed according to our three different mobile offerings named "Handy Family & Friends", "Handy Festnetz Flatrate" and "Handy Komplett Flatrate". With mobile internet, users can surf the internet with a daily flat rate or a monthly flat rate. Mobile internet services are offered either on a standalone basis (for laptops or tablet personal computers) or together with our mobile phone products (for smartphones). Our mobile phone and mobile internet offerings have been introduced as part of our strategy to offer our customers a complete state-of-the-art service portfolio in order to reduce churn.

Pursuant to our cooperation agreement, Telefónica Germany is our exclusive provider of mobile services and we are prohibited from reselling mobile services provided via mobile phone networks of other operators, subject to certain exceptions. We are responsible for customer support, and Telefónica Germany provides us with technical interfaces, technical infrastructure and other implementation services. We are obliged to rent a minimum of peak load capacity packages, which minimum increases over time. The initial term of the agreement is eight years.

Operations

Marketing and Sales

We have a customer-centric marketing approach based on price/performance leadership of our products, high quality, good service levels, brand and a multichannel distribution. We market and sell our products to customers using a broad range of sales channels, including retail outlets, promotion stands, web sales, inbound and outbound telemarketing, direct sales as well as informal "customer-gets-customer" promotions. The manner in which we target customers depends on the customer segment.

Our in-house business sales team serves all of the housing associations, facility managers, landlords and Professional Operators that use our network. This business sales team develops and cultivates close working relationships with these customers. In addition, a team of dedicated employees focuses on communities and real estate developers. They cooperate at a very early stage with communities and developers with the target to ensure that new buildings will be connected to our cable network. Additionally, we cooperate with real estate developers and utility service suppliers to share the cost of installing fiberglass cable networks to new buildings.

Our comprehensive trade sales organization is managed by our in-house trade sales team, and our trade sales distribution includes 40 Kabel BW branded retail outlets and additional third-party outlets, including multi-media retailers and electronics and telecommunications stores. We compensate this distribution organization on a commission basis.

Marketing and sales activities for all of our products are gradually shifting towards lower-cost web sales and inbound telemarketing. Our website contains product, service and promotional information. Our entire product portfolio can be ordered via our website. Through our customer service contacts, we seek to retain our current customers and market new enhanced products to them when they call our customer service centers.

We also make efforts to strengthen our overall brand awareness. We believe consumer awareness underpins our sales to direct subscribers, particularly single home owners. One advertising campaign in 2011 was "Twice as fast as DSL," strengthening the high-price-performance ratio Kabel BW offers to its customers. In addition to traditional media channels, we started a new advertising campaign in September 2011 based on an agreement with ProSiebenSat.1 group, which is visible only to Kabel BW video subscribers. The campaign aims to increase brand awareness and consumer demand for our advanced services.

Customer Service

We aim to increase our customer satisfaction and decrease churn with high product quality and dedicated service. The customer care process, including installation and repair, is a significant priority of our management. We regularly conduct surveys and tests to analyze the effectiveness of our customer service and the satisfaction of our customers in various aspects of their experience with us. We believe quality and service are major assets in customer acquisition and retention.

Our customer service function is responsible for all customer care activities (from order to cancellation). We operate two dedicated inside customer service centers in Heidelberg and Villingen-Schwenningen, supplemented by three outsourced call centers in Germany. Incoming phone calls are handled by external or (during night-time) internal first level call centers. If required, customers will be referred to our second level helpline served by our technical experts. Our customer service agents are trained in multiple skills, including marketing campaigns and customer care for a variety of digital and analog products. Our customer service organization is structured as a process oriented organization with special teams for the various processes, such as technical service, order entry, number porting and complaint management.

Our Network

Our network covers 75% of all homes in Baden-Württemberg, including the metropolitan areas of Stuttgart, Mannheim and Karlsruhe, the three most populated cities of Baden-Württemberg.

Our network consists of approximately 73,000 kilometers of fully owned coaxial cable and approximately 3,000 kilometers of fiber cable. Additionally, we possess approximately 3,000 kilometers of leased lines (two fiber connections) from local carriers. Our network passes 3.8 million homes, of which we believe the majority are located outside large urban areas. Average annual network service availability of our network and product platforms is high, at approximately 99.98% as of February 1, 2012.

The original infrastructure, a single direction broadcast network, was based on the mostly homogeneous topology developed by the predecessor of Deutsche Telekom AG (Deutsche Telekom). Due to a continuous upgrade of our distribution network, we are at present able to transmit bi-directional signals to virtually all of the homes our network passes, which enables us to deliver broadband internet, telephony and other interactive services, including HD channels and interactive TV features such as VoD, to our customers.

Deutsche Telekom and its predecessors originally constructed both our cable television network and Deutsche Telekom's current fixed-line telephony network. Certain parts of the infrastructure (including cable ducts, fiber optic transmission systems, and equipment locations) are shared by both the Deutsche Telekom telephony network and our cable television network. We lease these assets from Deutsche Telekom. In general, the network is comprised of fiber and coaxial cable that is either buried in the ground (90%) or housed in cable ducts (10%). The ducts are owned by Deutsche Telekom, as well as other carriers, and we lease duct space for our network under long-term contracts. For a description of our agreements with Deutsche Telekom, see "Material Contracts—Material Supply Contracts—Agreements with Deutsche Telekom". The distribution plant is powered by over 39,000 amplifiers. With the exception of the ducts, we operate all of the distribution plant and associated electronics. We purchase the electrical power required to operate most of the master headend, hubs and amplifiers through a regional power company, MVV Energie AG.

Competition

The markets for video, broadband internet and telephony services are highly competitive and rapidly evolving. Specifically, the media and communications market in Germany is progressively characterized by convergence as customers are increasingly looking to receive their media and communications services from one provider at attractive prices. In response, service providers are providing video, broadband internet, telephony services and increasingly mobile services bundled as triple-play or quadruple-play offerings. Consequently, we have faced, and will continue to face, increased competition across all of our product and service offerings. While we have continued to make progress in growing our customer base by increasing penetration of our video base with premium and advanced services, the competition we face in our markets, as well as a decline in the economic environment, could adversely impact our ability to increase or, in certain cases, maintain our revenue, RGUs, cash flow and liquidity. We currently are unable to predict the extent of any of these potential adverse effects.

We are focused on continuing to convert analog cable subscribers to digital and on selling such customers our premium digital cable services, such as premium channels, premium HD channels, DVR and VoD, as well as broadband internet and telephony services, which generate significantly higher recurring revenue than our basic cable video services. We believe that the provision of premium and advanced services, either on a standalone basis or together in our product bundles, is a key driver of revenue growth and strengthens customer loyalty. Through our partnership with Telefónica Germany we also offer mobile services.

Video Business Market

We are the third largest cable television provider in Germany based on the number of video cable subscribers, with operations in the federal state of Baden-Württemberg. Our video cable service competes directly with a wide range of providers, including:

- traditional over-the-air broadcast television services;
- direct to the home (DTH) satellite providers;
- digital terrestrial video broadcast (DVB-T), which comprises the digital broadcasting of television signals over terrestrial antennas and other earthbound circuits;
- other fixed-line telecommunications carriers and broadband providers, including Deutsche Telekom, the incumbent telephony operator, which primarily use digital subscriber line (DSL) technologies to provide Internet Protocol television (IPTV) and VoD; and
- over-the-top video content providers that deliver TV signals as a video stream on top of third parties' broadband internet access services.

According to IHS Screen Digest, as of December 31, 2011: 48% of German television homes used cable as their primary means for receiving television signals; satellite was used by 45% of German television homes; terrestrial transmission systems were used in 11% of German television homes; and IPTV was used in 4% of German television homes. The total percentage exceeds 100 because some homes use more than one distribution platform. DVB-T is often used as a platform for a second television set.

We face significant competition from free-to-air satellite distribution for our basic cable video services. An increase in the market share of satellite distribution, particularly free-to-air satellite, may have a negative impact on our video subscriber base and related basic cable fees in the future. Certain digital premium and pay-TV providers, such as Sky Deutschland, have made use of their own satellite platforms and introduced DVRs to provide additional functionality for those subscribers who receive their digital pay programming through satellite, thereby making satellite more attractive to potential customers. In addition, we compete with providers of digital video programming that currently utilize our network to reach their own subscribers. For example, we have an agreement with Sky Deutschland that gives our customers the opportunity to subscribe to premium content offered by Sky Deutschland through a smart card on our network. These providers may decide to develop or use alternative distribution platforms, such as free-to-air satellite, adversely affecting our ability to generate carriage fees and subscriber revenue, and potentially reducing the appeal of cable television.

The second most popular form of television reception in Germany after cable is DTH. Satellite operators such as Sky Deutschland, SES S.A. Astra (SES Astra) and Eutelsat Communications S.A. (Eutelsat), provide television users with over 300 digital free- and pay-TV channels targeted at the German market and several hundred international television programs, depending on the location of the satellite transponder. To receive programming distributed via satellite, viewers need a satellite dish and a set-top box. Viewers also require a smart card for premium cable television services distributed via satellite. Except for the recently introduced HD+ service by SES Astra, satellite providers do not have any relationship with end customers in Germany and, consequently, do not receive any subscription or other fees from them. If applicable, satellite customers are charged premium subscription fees directly by the providers of such programs. Eutelsat, with its KabelKiosk pay-TV service, and Sky Deutschland, with its premium subscription packages, also offer premium subscription packages to Professional Operators for wholesale distribution as an alternative to our premium digital channels. In August 2011, Deutsche Telekom began bundling its DSL-based broadband internet and fixed-line telephony services with a satellite-based video solution, targeting households in rural areas that already have a satellite dish installed or are planning to install a satellite dish and where very high bit rate digital subscriber lines (VDSL) or fiber-based bandwidth wireline capacity is not available with its existing network. This target market would expand Deutsche Telekom's reach for its TV products to approximately 82% of all households in Germany. Satellite may be heavily promoted in the future by Sky Deutschland or Deutsche

Telekom, other content providers or satellite operators by offering more attractive content, in particular premium and HD content.

Satellite's main strengths compared to cable include: lower costs over time, given that the initial cost of purchasing a satellite dish is offset by the absence of recurring subscription fees; satellite's almost universal coverage across Germany, including remote and rural areas where a cable connection is not available; and a broader offering of international channels. We compete with satellite providers by offering customers an easily delivered triple-play bundle of services and advanced services including VoD capability as our network is well suited for bi-directional high-speed data transfer. In addition, satellite requires a large up-front commitment by the customer and there are limitations on satellite reception due to location or external conditions, such as adverse weather conditions. In certain circumstances, restrictions set by zoning laws and contractual arrangements with property owners prohibit the installation of a satellite dish. Applicable regulations, however, may change in the future, and, as a result, competition with satellite providers may increase further.

Another television delivery media is DVB-T, which is available primarily in metropolitan areas. Currently, the number of television channels that can be transmitted via DVB-T in most areas in Baden-Württemberg is limited to up to 12, and, similar to satellite, DVB-T does not allow for the provision of enhanced bi-directional functionalities given the lack of a return path. A switch to DVB-T 2 technology, however, could increase the transmission capacity and could increase the number of standard definition (SD) channels and allow HD offerings as well. The terrestrial transmission infrastructure is owned and operated by Media Broadcast GmbH, and public broadcasters such as Arbeitsgemeinschaft der Öffentlich-Rechtlichen Rundfunkanstalten der Bundesrepublik Deutschland (ARD) and Zweites Deutsches Fernsehen (ZDF). According to a DVB-T Überallfernsehen 2010 press release, DVB-T can be received by more than 90% of all television households in Germany via antenna. In order to receive DVB-T, a consumer needs an antenna and a receiver, but the consumer is not required to pay any subscription fees. Demand for digital terrestrial television may increase in the future as it becomes more widely available and the price of the receiving equipment decreases.

As a consequence of improvements in internet access and data transmission technologies, in particular the upgrade of DSL to VDSL or fiber-to-the-home (FTTH), the internet is increasingly being used as a platform for the distribution of IPTV and VoD services. Deutsche Telekom introduced its IPTV offering for the first time in 2006 and today is the leading provider of IPTV in Germany. Deutsche Telekom also offers a VoD service and has reported 1.6 million video subscribers. Vodafone D2 GmbH (Vodafone) is the second largest IPTV provider in Germany reporting 100,000 subscribers after launching its service in February 2011, followed by Telefónica Germany, with 83,000 reported subscribers. Each of Deutsche Telekom, Vodafone and Telefónica Germany currently offers IPTV services to their customers with broadband speeds of at least 3-6 Mbps. In order to provide IPTV services at a comparable technical quality to cable, satellite and terrestrial TV offerings, Deutsche Telekom reports that it has rolled out VDSL across more than 50 towns and cities throughout Germany. We believe this will allow Deutsche Telekom to offer IPTV services (including HD channels) to 31% of the homes passed by our network. This penetration is below the 34% VDSL penetration average in Germany that Deutsche Telekom reported as of December 31, 2011. We also believe that Deutsche Telekom could distribute IPTV to another estimated 25% of our homes passed via asymmetric digital subscriber line 2+, but with significant technical limitations. In the future, we may also face competition for video from over-the-top (OTT) content providers. These providers deliver television signals as video stream on top of third parties' broadband internet access services (including our network). OTT players (such as ProSiebenSAT.1 group's maxdome, Apple Inc.'s Apple TV and Amazon's LOVEFiLM International) are competitive, especially for on-demand services. These services may become more popular, in particular among Germany's younger demographic.

We also face competition for housing association contracts within Baden-Württemberg from housing associations, municipal carriers and Professional Operators. Professional Operators typically enter into long-term contracts with housing associations and may have greater flexibility in their pricing strategies, which limits our opportunities to win new contracts or prolong existing contracts with these housing associations and may hinder our efforts to effectively market our services to housing associations. In 2011, Deutsche Telekom announced that it was seeking to provide video and broadband services to MDUs, and Deutsche Telekom announced in December 2011 that it had entered into a contract with a large housing association. Deutsche Telekom stated that under this contract it plans to

connect 171,000 units throughout Germany to its fiber-based network and provide tenants in these buildings with a full triple-play offering. It is expected that the initial units will be connected in the first quarter of 2013. We expect to experience more competition in the MDU market segment from Deutsche Telekom and alternative providers. In addition, certain of the conditions our company agreed to in connection with the completion of the LGI/KBW Transaction will increase competition with respect to the MDU market segment. See "—Regulatory Matters—LGI/KBW Transaction Imposed Conditions".

To enhance our competitive position, we offer an integrated, triple-play bundled service over an upgraded network that is well suited for bi-directional high-speed data transfer. Our premium services provide our digital customers VoD, DVR functionality and access to HD channels, which we believe puts us in an advantageous position compared to the services and products offered by our competitors. We continue to improve our programming options (increasing HD channels and access to international channels) and progressively add new premium and advanced services. We offer a variety of bundled options at competitive prices from which customers can select combinations of services, including broadband internet and telephony services, that fit their particular circumstance.

Broadband Internet Market

The broadband internet services business in Germany is highly competitive. We compete with companies that provide low-speed and low-cost (or potentially even free) internet services over traditional telephone lines. For broadband internet access, DSL is currently the dominant technology and the major DSL service provider in Germany is Deutsche Telekom with 12.3 million broadband internet subscribers as of December 31, 2011. We estimate that Deutsche Telekom is able to offer its high-speed product with up to 50 Mbps internet speed to 31% of our homes passed, but may increase this level over time. Other major competitors in the broadband internet market are resellers of Deutsche Telekom's services, including United Internet AG, and alternative network operators such as Vodafone and Telefónica Germany that lease the unbundled local loop from Deutsche Telekom or use other forms to access Deutsche Telekom's network. Additional internet access technologies comprise FTTH and fiber-to-the-building that are usually deployed in densely populated areas. Deutsche Telekom, as well as other local operators, in conjunction with municipal utility companies, are increasingly rolling out fiber-based technologies in our markets.

In addition, mobile broadband services have been launched by mobile network operators such as Deutsche Telekom, Vodafone, Royal KPN NV's E-Plus Service GmbH & Co. KG (EPlus) and Telefónica Germany. This market segment has experienced strong growth. Although mobile broadband services generally offer speeds and capacities slower than cable and DSL/VDSL operators, such network capabilities were enhanced by long-term evolution network rollouts in 2011. Alternative technologies for internet access may develop and become competitive alternatives, as well. Accordingly, we will continue to face additional competition as new technologies may force us to increase capital expenditures to upgrade our system and provide additional products and services.

We believe we operate a network with superior technology than our competitors so that we can offer customers maximum upload and download speeds at varying tiers of service tailored to the customer's needs throughout our footprint. As a result of implementing EuroDOCSIS 3.0, our network has the ability to deliver broadband speeds of 100 Mbps and beyond, which is twice the speed of VDSL. In addition, our large video customer base provides a strong basis to up-sell our broadband internet service. We also compete by selling value added services such as internet security packages.

Telephony Market

Fixed-line Phone. Deutsche Telekom dominates the fixed-line phone market with 23.4 million subscribers. As a result of deregulation, however, the market share of Deutsche Telekom has been decreasing both in terms of phone lines and minutes sold since 1998.

The fixed-line phone market is increasingly under pressure from resellers, alternative carriers, declining mobile phone charges and alternative access technologies such as VoIP services offered via DSL or other broadband internet connections such as cable and other service providers such as Skype. The German market for phone services is typically price sensitive. We expect competition, including price competition, from traditional and non-traditional fixed-line and mobile phone providers to continue. In

recent years, fixed-line phone calls have been transformed into a commodity and have become increasingly dependent on a quality broadband offering, as phone is increasingly bundled with broadband internet services. Fixed-line phone has experienced significant price erosion over the last few years, with operators increasingly offering flat-rate products. We seek to compete based on the speed of our network connections, pricing and product innovation. We also offer varying plans to meet customer needs and various bundled service options with our digital video and broadband internet services.

Mobile. There are four network operators in the German market: Deutsche Telekom, Vodafone, EPlus and Telefónica Germany. Each of these operators has its own mobile access network. Over recent years the mobile operators utilized their networks by allowing mobile service providers or mobile virtual network operators to sell their own branded mobile products. The German market has one of Europe's most advanced mobile service provider sectors, with Freenet AG's Debitel/mobilcom currently being the largest service provider. Discounters and large retailers have also entered the market in cooperation with mobile operators. The German market for mobile services is still growing, but price levels are decreasing and we expect increasing competition, including price erosion.

Business Customers

In 2011, we began to actively offer specific products to meet the broadband internet and fixed-line phone needs of small enterprises and home offices. In our view, our main competitors in this business area include Deutsche Telekom, Vodafone, QSC AG, Telefónica Germany, Colt Telecom GmbH and Versatel AG.

Regulatory Matters

Our business is subject to various regulatory requirements and obligations including the telecommunications and media laws, general antitrust law, as well as technical and other regulations.

Telecommunications Regulation

The telecommunications business in Germany is subject to the regulatory regime of the German Telecommunications Act and certain ordinances promulgated under the German Telecommunications Act. The German Telecommunications Act covers the transport of any signal by telecommunications installations encompassing television signals, internet data transport and voice telephony, all of which we provide.

The German regulatory framework is predominantly based on the European Union (EU) regulatory framework. The body of EU law that deals with communications regulation consists of a variety of legal instruments and policies (collectively referred to as the EU Communications Regulatory Framework or Regulatory Framework). The key elements of the Regulatory Framework are various directives that require member states of the EU (Member States), of which Germany is one, to harmonize their laws, as well as certain regulations that have effect without any national transposition.

The Regulatory Framework primarily seeks to open European markets for communications services. It harmonizes the rules for the establishment and operation of electronic communications networks, including cable television and traditional telephony networks, and the offer of electronic communications services, such as telephony, internet and, to some degree, television services. The Regulatory Framework does not generally address issues of content.

On December 18, 2009, the Official Journal of the EU published revisions to the Regulatory Framework. Such revisions should have already been transposed into the laws of Germany although this process is ongoing. Implementation of these revisions is expected by the end of the first quarter of 2012. Generally, the changes to the Regulatory Framework are limited, but will affect us. Some changes are institutional. For example, a new body of European regulators has been created. Also, new powers have been given to national regulators. For example, the national regulators have rights to mandate access to ducts even on operators without significant market power. Then there will be enhanced powers for Member States to impose quality of service requirements on internet service providers. The revisions also strengthen the rights of the European Commission to participate in national regulatory procedures.

Other issues addressed by the revised Regulatory Framework include shortening the time to change the fixed or mobile telephone provider to one day while keeping one's old telephone number. Furthermore, the national telecoms' authorities will have the power to set minimum quality levels for network transmission services so as to promote the same quality of service irrespective of the technology used and to prevent discrimination of services. In addition, national regulators may order functional separation as a last-resort remedy, requiring undertakings to place activities related to the wholesale provision of access products in an independently operated business unit. In general, pending the adoption and the transposition by the Member States of the new Directives, the existing legal situation is unchanged.

The Regulatory Body. The German Federal Network Agency (Bundesnetzagentur), an independent governmental body, is inter alia responsible for the regulation of the German telecommunications market. The Federal Network Agency has various powers with respect to the enforcement of telecommunications laws and ordinances. All decisions of the Federal Network Agency may be challenged before the competent administrative court (Verwaltungsgericht) in Cologne and further appealed at higher instances.

In addition, the FCO has powers under the German Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*) that prohibits the abuse of a market-dominant position as well as the distortion of competition through agreements or collusive behavior by market participants. Similar powers are vested with the European Commission.

Relevant legislation imposes a variety of rules on us and other market participants. Certain key provisions are set forth below. This description is not intended to be a comprehensive description of all regulation in this area nor a review of specific obligations which have been imposed on us. The Federal Network Agency informed us that the regulation ordinance regulating the market for broadcasting transmission services (former market 18) issued in 2007 was repealed. As a consequence, broadcasting transmission services are no longer subject to supervision by the Federal Network Agency but by the FCO.

Notification Requirements. The German Telecommunications Act provides for an obligation to notify the Federal Network Agency of the commencement, any modification and the termination of the operation of a public telecommunications network and of the offering of telecommunications services to the public.

Interconnection and Access Obligations. Every operator of a public telecommunications network, irrespective of its market position, is obligated upon request to offer interconnection with its network to other network operators. If the parties cannot agree upon the conditions of such interconnection, the Federal Network Agency can impose on an operator that controls access to end customers the obligation to provide interconnection and other access obligations upon application by one of the parties.

The regulatory powers of the Federal Network Agency are comprehensive vis-à-vis operators with "Significant Market Power," irrespective of their granting access to end customers. Based on a market analysis, the Federal Network Agency may impose on operators of public telecommunications networks with "Significant Market Power" various obligations to interconnect and to grant other undertakings access to their telecommunications networks for the provision of telecommunications services.

Regulation of Fees. Under the German Telecommunications Act, the fees for telecommunications access services offered by providers can be subject to pricing regulation if significant market power has been determined or if the operator controls access to end-users. The German Telecommunications Act distinguishes between fees that require prior regulatory approval (ex ante) and those that are subject to an ex post review. The way in which fees are regulated is dependent on the possession of significant market power as well as on the imposition of access obligations.

Allocation of Frequencies. In addition to the notification requirement mentioned above, in principle, a frequency allocation by the Federal Network Agency is required for the use of frequencies in our cable network. The allocation of frequencies is subject to a one time fee and the usage of frequencies is subject to annual fees. The requirement of a frequency allocation generally applies to the use of terrestrial frequencies as well as, in principle, to the use of frequencies in a cable network. Up to July 2009, frequencies in cable networks within the frequency range from 9 kHz to 3 GHz could be used on the basis of the German Frequency Range Allocation Plan Ordinance

(Frequenzbereichszuweisungsplanverordnung) without an additional allocation decision by the Federal Network Agency, subject to certain conditions regarding electromagnetic interferences and security-related radio services. Due to a recent change in the German frequency allocation framework, which revoked the pertinent provision, the usage of frequencies within cable networks would, according to the wording of the German Telecommunications Act, now require that the Federal Network Agency allocate frequencies either by way of a general assignment or by an individual frequency assignment upon application. However, a recent amendment of the German Telecommunications Act eliminated such frequency allocation requirement, therefore cable operators do not need a license to use frequencies in cable networks.

Rights of Way. Operators of public telecommunications networks that wish to use public streets, squares, bridges and public waters for the laying and operating of telecommunications lines have to apply to the Federal Network Agency in order to obtain the respective rights of way. In particular, the Federal Network Agency has to determine whether the applicant has demonstrated sufficient professional expertise, reliability and financial capability to operate telecommunications lines. Both the installation of new telecommunications lines and the modification of existing telecommunications lines also require the consent of the competent road construction and maintenance authority.

Net neutrality. In the amendment to the German Telecommunications Act enacted in March 2012, the legislature refrained from imposing any detailed net neutrality regulation. However, pursuant to a new section of the German Telecommunications Act, the German government is empowered to release orders to ensure net neutrality in the future after having consulted with the Bundestag and the Bundesrat.

Media Regulation

Regulation of the media falls within the legislative competence of the German federal states (*Bundesländer*). The media laws of all 16 federal states have been partially harmonized by the State Broadcasting Treaty (*Rundfunkstaatsvertrag*). The State Broadcasting Treaty establishes the main framework of the German regulation of broadcast. In particular, it provides for a regime designed to ensure that a diversity of opinions is secured in the mix of public and commercial radio and television channels and their respective programming. The regime affects our ability to decide how to use our digital platform and therefore may impact our business.

Nearly every German state has established its own independent regulatory body, the state media authority (*Landesmedienanstalt*), for the regulation of the private broadcasting sector. The state media authorities are primarily responsible for licensing and supervising of commercial broadcasters and the allocation of transmission capacities for radio and television channels (must carry regulation as described below). They are also in charge of the regulation of carriage fees, conditional access systems, interfaces, electronic program guides/navigators, the bundling of programs and price regulation. Any decision of the state media authorities can be challenged before the competent administrative courts.

Broadcasters have the right to file a complaint with the relevant state media authority in the event that cable network operators refuse to carry their signals. The state media authorities are vested with the power to order the transmission of channels upon receipt of such complaints, provided that the respective broadcaster's programs enjoy a "must carry" status or that the network has sufficient excess capacity. Whether or not a broadcaster, in particular one enjoying must carry status, is entitled to claim a distribution directly from the cable network operator is unclear.

Allocation and Use of Transmission Capacities. The State Broadcasting Treaty sets forth the rules for the allocation and use of digital transmission capacities and digital playout facilities for television channels. The allocation and use of analog cable transmission capacities for both radio and television channels is governed by the laws of the respective states. The allocation and use of digital transmission capacities for digital television and radio channels are, however, primarily governed by the must carry rules of the State Broadcasting Treaty.

Regulations regarding the analog cable transmission of radio and television channels vary from state to state and cable network operators are generally not free to allocate analog channels in their networks. Rather, the state media authorities make allocation decisions regarding the programs that will

be transmitted over the cable networks, in order to ensure a diversity of opinions in the mix of channels and programming. In the analog range, the specific allocation of channels varies from state to state and rules relating to the allocation of radio channels are usually less strict than those relating to television channels. The media law in the state of Baden-Württemberg requires us to carry 14 analog television channels, and also limits the possibility to convert these analog television channels into digital television channels.

In the digital range, the must carry obligations currently apply for the distribution of certain digital channels (up to a maximum of one third of our digital bandwidth dedicated to broadcasting services). Practically speaking, one third of digital capacity is must carry, one third is allocated to ensure diversity and one third is for the cable operator's own choice.

Use of Conditional Access Systems. The operation of conditional access systems for television services is governed by both the State Broadcasting Treaty and the German Telecommunications Act. The provisions in the State Broadcasting Treaty on conditional access have been implemented by a specific bylaw on open access to digital services and on platform regulation (Satzung über die Zugangsfreiheit zu digitalen Diensten und zur Plattformregulierung), which has been adopted by the state media authorities. They provide general rules for the use of conditional access systems, interfaces, electronic program guides/navigators and the bundling of programs, whereas the German Telecommunications Act contains specific provisions for conditional access systems. Under these regulations, we must generally grant a diverse program offering and must not unfairly obstruct or discriminate against broadcasters and other content providers.

LGI/KBW Transaction Imposed Conditions

On December 15, 2011, the FCO approved the LGI/KBW Transaction, subject to our company's and Unitymedia's agreement with the following conditions:

- The digital free-to-air television channels (as opposed to channels marketed in premium subscription packages) distributed on the networks of our company and Unitymedia will be distributed in unencrypted form commencing January 1, 2013. This commitment is consistent with our current practice and generally covers free-to-air television channels in SD and HD. If, however, free-to-air television broadcasters request their HD content to be distributed in an encrypted HD package, the encryption of free-to-air HD channels is still possible. In addition, our company and Unitymedia made a commitment that, through December 15, 2015, the annual carriage fees received by our company and Unitymedia for each such free-to-air television channel distributed in digital or simulcast in digital and analog would not exceed a specified annual amount, determined by applying the respective current rate card systems of our company and Unitymedia as of January 1, 2012.
- Effective January 1, 2012, our company and Unitymedia waived their exclusivity rights in access agreements with housing associations with respect to the usage of infrastructures other than the in-building distribution networks of our company and Unitymedia to provide television, broadband internet or telephony services within the building.
- Effective January 1, 2012, upon expiration of the minimum term of an access agreement with a housing association, our company or Unitymedia, as applicable, will transfer the ownership rights to the in-building distribution network to the building owner or other party granting access. In addition, our company and Unitymedia each waived the rights to remove in-building distribution networks.
- A special early termination right will be granted with respect to certain of our company's and Unitymedia's existing access agreements with the largest housing associations that cover more than 800 dwelling units and have a remaining term of more than three years. The total number of dwelling units covered by the affected agreements is approximately 340,000, of which approximately 110,000 and 230,000 are located in the footprints of our company and Unitymedia, respectively. The special termination right may be exercised on or before September 30 of each year up to the expiration of the current contract term, with termination effective as of January 1 or July 1 of the following year. If the special termination

right is exercised, compensation will be paid to partially reimburse our company or Unitymedia, as applicable, for unamortized investments in modernizing the in-building network based on an agreed formula.

In January 2012, two of our competitors, including Deutsche Telekom, each filed an appeal against the FCO regarding its decision to approve the LGI/KBW Transaction. We believe the decision will ultimately be upheld and currently intend to support the FCO in defending the decision. In addition, we do not expect that the filing of these appeals will have any impact on the ongoing integration and development of our operations. The ultimate resolution of this matter is expected to take up to four years, including the appeals process.

Intellectual Property

The German Act on Copyright and Related Rights (*Gesetz über Urheberrecht und verwandte Schutzrechte*) generally requires that the operators of cable networks pay royalties for the retransmission of certain radio and television programs. Claims for these royalties can be asserted exclusively by the German copyright collecting societies (*Verwertungsgesellschaften*) and not by the authors of such protected intellectual property themselves. Broadcasters have the choice, however, to assert their rights individually or via a copyright collecting society. The Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte (GEMA), one of the German copyright collecting societies, has been mandated by most of the relevant German copyright collecting societies to collect these royalties from the cable network operators. In addition, VG Media GmbH (VG Media) was mandated by some German commercial broadcasters to assert their royalty claims based on their cable retransmission rights. The amount of the royalties due is not provided for under the German Act on Copyright and Related Rights, and GEMA and VG Media have in the past each asserted royalty amounts that we disputed.

We have agreements with GEMA (and other collecting societies and public broadcasters) and VG Media regarding the payment of royalties for retransmission of television and radio programs. We entered into the agreement with GEMA on April 6, 2009, and such agreement cannot be terminated by either party prior to December 31, 2012. Under the agreement, we pay GEMA an annual fee equal to 3.25% of our basic cable service revenue (as defined in the agreement with GEMA and generally includes the revenue we generate from the delivery of free-to-air TV programs to video subscribers, but excludes revenue we receive for premium or advanced services, or activation and equipment fees), subject to certain minimum commitments. On September 29, 2011, we entered into an agreement with VG Media that requires us to pay an annual fee equal to 1% of our basic cable service revenue (as defined in the agreement with VG Media and similar to the definition in the GEMA agreement) for each year from 2006 to 2010 and 0.64% of our basic cable service revenue for each year from 2011 to 2015, subject to certain minimum commitments. During the contract term, VG Media will not make any further claims against us with regard to the retransmission of television and radio programs.

We have also entered into an agreement with RTL group (a commercial broadcaster that asserted its rights under the German Act on Copyright and Related Rights individually), which provides for an annual payment on royalty claims of RTL group of 0.36% of our basic cable service revenue (as defined in the agreement with RTL group and similar to the definition in the GEMA agreement) for each year from 2011 to 2015, subject to certain minimum commitments.

In addition, GEMA may demand fees under the German Act on Copyright and Related Rights regarding our premium subscription service. Although GEMA has not brought such an action against us to date, they recently brought an action against Unitymedia for fees relating to Unitymedia's premium subscription service. We are currently in negotiations with GEMA relating to these matters. Under nearly all of our agreements with our premium video suppliers, we are indemnified for any payments we make to GEMA with respect to such distribution.

We also pay a license fee to the applicable content providers for the programming we make available through our premium subscription service. The license fee is generally paid based on the number of subscribers to whom we make such programming available.

Legal Proceedings

From time to time, we may become involved in legal proceedings arising out of our operations in the normal course of business. We believe the ultimate resolution of any of these existing contingencies would not likely have a material adverse effect on our business, results of operations or financial condition. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and we can offer no assurances in this regard.

Cartel Proceedings regarding the Use of Set-Top Boxes. Since February 2010, the FCO has been investigating our business policy regarding the use of set-top boxes with proprietary functions in connection with our digital platform, alleging that it amounts to an abuse of a dominant market position by us. Based on similar allegations, the FCO has also initiated individual proceedings against other cable network operators and the largest German pay-TV provider. On October 26, 2010, the FCO preliminarily suspended the proceedings against us. Even though the FCO may consider our current set-top box specifications to be unlawful, it took the view that it was not necessary to continue these proceedings if television sets equipped with a Digital Video Broadcasting-Cable tuner and a CI+ interface (IDTV) continue to be distributed as currently expected. The FCO may reopen proceedings if the sale of IDTV does not develop as currently forecasted. The FCO announced that it would review the development of IDTV sales in 2011 and decide whether to reopen proceedings against us in the second half of 2011. To date, the FCO has not reopened these proceedings. As we do not currently use basic encryption and Unitymedia will remove basic encryption as a result of the LGI/KBW Transaction, we believe that the FCO proceedings concerning the set-top box procurement strategy and the encryption technology used therein should be closed. The FCO, however, has not formally closed these proceedings and could continue to investigate these business policies. If the FCO were to continue or reopen these proceedings, there is a risk that the FCO would impose burdens and restrictions on us, which could have a material adverse effect on our business, results of operations or financial condition.

Rovi Corporation. In December 2009, we received a cease and desist letter from Rovi Corporation, a United States company (Rovi), claiming that the electronic program guide (EPG) we provide to our customers infringes on patents held by Gemstar TV Guide International, Inc., an affiliate of Rovi. Rovi demanded that we disable the EPGs and claimed that NDS Technologies France SAS, our supplier of conditional access cards, is not permitted to provide a sublicense for Rovi's alleged rights. In November 2010, Rovi submitted a presentation to us that asserted that Rovi holds a number of patents registered in Europe with respect to certain functions of the EPG. While we believe that Rovi's claims are without merit and we intend to defend ourselves vigorously, we can provide no assurances as to whether Rovi will pursue these allegations further and, if they do so, the outcome of any such proceeding.

Cartel Proceedings regarding Impermissible Pricing. On February 3, 2011, the Ministry of Economy of Baden-Württemberg, as competent anti-trust authority, initiated a proceeding to investigate an allegation of discrimination and predatory pricing that had been made against us by a Professional Operator. In connection with this proceeding, we were ordered to disclose to the Ministry of Economy certain information regarding our standard signal delivery rates and the rebates, benefits and refunds we offer to our housing association customers. While we believe these allegations to be false and intend to defend ourselves and our business practices vigorously, we can provide no assurances regarding the findings of the Ministry of Economy. If they find certain of our pricing mechanisms unlawful, we may, under certain circumstances, be found liable for fines and damages or we may have to offer to enter into commitments that are capable of dispelling the anticompetitive concerns raised against us.

DVR Set-Top Boxes. Pursuant to agreements we have with the suppliers of our DVR set-top boxes, we are responsible for the payment of the copyright fees for such set-top boxes owed under German copyright law to a subsection of the collecting society GEMA called ZPÜ. The tariffs applicable are subject to ongoing litigation between an association of set-top box manufacturers and ZPÜ. We are unable to predict the outcome of this litigation or estimate our potential liability. Given the increasing number of set-top boxes we deploy with DVR functionality, there is a risk that we may have to pay a considerably higher amount of these copyright fees than expected.

MANAGEMENT

Management of Kabel BW

In accordance with German corporate law we are managed by our Managing Directors (*Geschäftsführer*). Responsibilities for operations are delegated to members of senior management.

Managing Directors

The Managing Directors are responsible for the day-to-day management of the business. Our Managing Directors and the Managing Directors of each of our subsidiaries are appointed at a shareholders' meeting for each company. Such Managing Directors may also be removed at the applicable shareholders' meeting. The Managing Directors are obligated to report regularly to the applicable shareholders' meeting on the business activities and strategy of the applicable company, and the shareholders may request additional reports at any time. The Managing Directors must obtain prior approval from the shareholders with respect to certain material matters, but the shareholders are generally not entitled to assume management functions or interfere with the day-to-day management of the business.

Set forth below is information concerning our current managing directors. The business address for each of these managing directors is Im Breitspiel 2-4, 69126 Heidelberg, Germany.

| <u>Name</u> | <u>Age</u> | <u>Position</u> | Year First <u>Appointed</u> |
|--------------------|------------|--|--------------------------------|
| Harald Rösch | 44 | Chairman of the Management Board, Chief Executive Officer | 2009 |
| Dr. Holger Püchert | 46 | Co-Chief Financial Officer | 2007 |
| Christoph Nieder | 50 | Chief Marketing Officer | 2008 |
| Uwe Bärmann | 50 | Chief Technology Officer | 2007 |
| Jens Müller | 40 | Co-Chief Financial Officer | 2011 |
| Jon Garrison | 36 | Co-Chief Financial Officer | 2011 |

Harald Rösch has been our Chief Executive Officer since February 2009. Mr. Rösch started his professional career at McKinsey & Company (1993 to 1999) before he joined the first Italian alternative telecom operator Infostrada. Subsequently, Mr. Rösch became head of the internet department of Telecom Italia in Milan (2001 until 2003) and then CEO of Hansenet Telekommunikation GmbH in Hamburg. Mr. Rösch holds degrees in business administration from business schools in Reutlingen and Reims (France) as well as a MBA from INSEAD (Fontainebleau).

Dr. Holger Püchert has been our Co-Chief Financial Officer since December 2011 and was our Chief Financial Officer from 2007 until December 2011. Dr. Püchert has a long career in the telecommunications sector and was, until October 2007, Chief Financial Officer of the third Austrian mobile phone operator Orange Austria (formerly ONE). Prior to this function, Dr. Püchert held various management positions in the E.ON group. After Dr. Püchert finished his studies of business engineering, he worked as research assistant at Karlsruhe's University where he received a doctorate in economics in 1996.

Christoph Nieder has been our Chief Marketing Officer since April 2008. Mr. Nieder holds a degree in business administration (Diplom-Kaufmann). Mr. Nieder has several years' marketing and communications management experience. From 2000 to 2008 Mr. Nieder served as Sales and Marketing Director for Arcor AG & Co. KG. and from 1994 to 1999 for Warsteiner Brauerei.

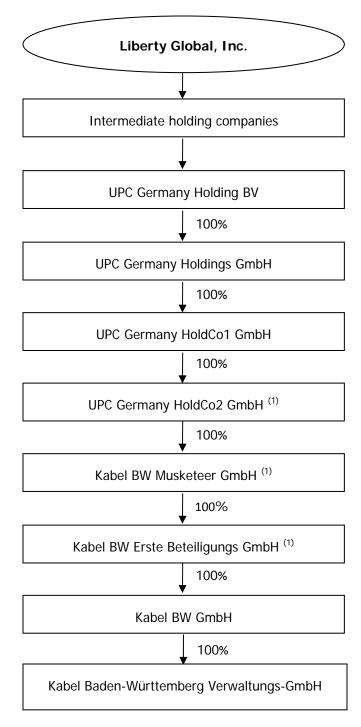
Uwe Bärmann has been our Chief Technology Officer since February 2007. Previously he was Service Assurance Manager for Colt Telecom GmbH and Senior Project Manager for Colt Telecom Logistics. Mr. Bärmann started his career as development engineer for ANT Nachrichtentechnik. Mr. Bärmann studied electrical and telecommunication engineering at the University of Applied Sciences in Düsseldorf and holds a masters degree in engineering.

Jens Müller has been our Co-Chief Financial Officer since December 2011. He has been Vice President Finance, Operations, Co-CFO and Managing Director of Unitymedia since July 2010 and November 2010, respectively. Before his current roles, Mr. Müller held various senior positions within Unitymedia's finance department as well as its predecessor company ish NRW GmbH & Co. KG (ish NRW). Prior to joining ish NRW in 2001, Mr. Müller worked at several companies in the telecommunications and internet commerce industry. Mr. Müller studied economics and business administration at the universities of Bochum and Helsinki.

Jon Garrison has been our Co-Chief Financial Officer since December 2011. He has been Vice President Accounting, Co-CFO and Managing Director of Unitymedia since August 2010 and November 2010, respectively. Before his current roles, Mr. Garrison was Liberty Global Europe's (LGE) Vice President of Technical Accounting responsible for accounting policy throughout Europe and assisted regularly in due diligence, transaction structuring, and financial integration of acquisitions. Prior to joining LGE in 2005, Mr. Garrison was a public accountant at Deloitte LLP within a variety of industries in the United States and England. Mr. Garrison obtained his masters in accountancy at the University of Denver.

Shareholder and Current Corporate Group Structure

The following diagram sets forth a simplified summary of our corporate structure as of December 31, 2011.



⁽¹⁾ As part of an internal reorganization (the 2012 Reorganization) that is to be effected through a series of mergers and consolidations, these entities will each be merged into Kabel BW GmbH. The mergers were filed with the commercial register (*Amtsgericht*) on March 27, 2012 and will be effective upon registration. For more information regarding the 2012 Reorganization see note 1 to our consolidated financial statements.

DESCRIPTION OF INDEBTEDNESS

Set forth below is a summary of our outstanding indebtedness as of December 31, 2011, and of the material terms of the agreements and arrangements governing such indebtedness as of such date.

Introduction

On March 31, 2011, we and an indirect wholly owned subsidiary of ours (Kabel Partnership) issued: (i) €800.0 million principal amount of 7.5% Senior Secured Notes (the KBW Euro Senior Secured Notes), (ii) \$500.0 million (€385.8 million) principal amount of 7.5% Senior Secured Notes (together with the KBW Euro Senior Secured Notes, the KBW Senior Secured Fixed Rate Notes) and (iii) €420.0 million principal amount of Senior Secured Floating Rate Notes (the KBW Senior Secured Floating Rate Notes and together with the KBW Senior Secured Fixed Rate Notes, the KBW Senior Secured Notes). The KBW Senior Secured Fixed Rate Notes mature on March 15, 2019 and the KBW Senior Secured Floating Rate Notes mature on March 15, 2018. Interest on the KBW Senior Secured Floating Rate Notes is payable quarterly on March 15, June 15, September 15 and December 15.

The net proceeds from the issuance of the KBW Senior Secured Notes of €1,529.8 million, after deducting issuance costs of €45.6 million, were primarily used to repay bank loans (including accrued interest) of €1,176.3 million and to fund a loan by Kabel BW to KBW Musketeer (the KBW Musketeer Loan Facility). For more information regarding the KBW Musketeer Loan Facility, see "Material Contracts—Intercompany Agreements".

On March 31, 2011, concurrent with the issuance of the KBW Senior Secured Notes, KBW Musketeer issued €680.0 million principal amount of 9.5% Senior Notes (the KBW Senior Notes and together with the KBW Senior Secured Notes, the KBW Notes). The KBW Senior Notes mature on March 15, 2021 and interest is payable semi-annually on March 15 and September 15 of each year. KBW Musketeer used the combined net proceeds from the issuance of the KBW Senior Notes and from the KBW Musketeer Loan Facility to fund the partial repayment of its €1.1 billion note payable to Oskar Rakso.

At December 31, 2011, the KBW Senior Notes were an obligation of KBW Musketeer and were not a direct obligation of our company or of any of our subsidiaries. Accordingly, the KBW Senior Notes are not included in our consolidated balance sheet. However, as both the KBW Senior Notes and the KBW Senior Secured Notes are part of the same credit group, we include a description of certain of the terms of the KBW Senior Notes below.

KBW Senior Secured Notes and KBW Senior Notes

The KBW Senior Secured Notes and the KBW Senior Notes have been issued pursuant to two indentures (the KBW Senior Secured Indenture and the KBW Senior Indenture, respectively) each dated March 31, 2011. Effective August 31, 2011, and following the completion of a post-issuance reorganization by KBW Musketeer and its subsidiaries that was effective April 30, 2011, (i) Kabel Partnership was collapsed into Kabel BW GmbH (formerly known as Kabel BV Holdings GmbH (KBW)), and KBW assumed all of the obligations of Kabel Partnership under the KBW Senior Secured Notes and the KBW Revolving Credit Facility (as defined below), (ii) KBW assumed the obligations of Kabel BW as issuer of the KBW Senior Secured Notes, pursuant to an accession agreement dated August 31, 2011, and Kabel BW was thereby released from its obligations as an issuer of the KBW Senior Secured Notes, (iii) Kabel BW provided a guarantee of the KBW Senior Secured Notes pursuant to a supplemental indenture dated August 31, 2011 and (iv) KBW assumed all rights and obligations of Kabel BW as lender of the KBW Musketeer Loan Facility.

In connection with the 2012 Reorganization, effective March 27, 2012, (i) the obligations of KBW Musketeer under the KBW Senior Notes were assumed by UPC Germany HoldCo 1 GmbH (UPC Germany HC1) in exchange for an intercompany note payable to UPC Germany HC1, (ii) UPC Germany HC1 became the issuer under the KBW Senior Notes, (iii) KBW Musketeer was released from its obligations as issuer under the KBW Senior Notes and (iv) UPC Germany HC1 became a guarantor under the KBW

Senior Secured Notes. The following descriptions of the KBW Notes and the KBW Revolving Credit Facility (as defined below) represent the terms that exist after giving effect to these changes.

The KBW Senior Secured Notes are secured by a first ranking security interest over the shares of KBW, substantially all of the assets of KBW and Kabel Baden-Württemberg Verwaltungs-GmbH (Kabel GP) and certain other asset security of UPC Germany HC1, and are guaranteed on a senior basis by UPC Germany HC1 and Kabel GP. The KBW Senior Notes are secured by a first ranking security interest in the shares of UPC Germany HC1 and a second priority security interest in the shares of KBW and certain other asset security of UPC Germany HC1, and are guaranteed on a senior subordinated basis by KBW and Kabel GP.

The KBW Senior Secured Notes are senior obligations of KBW that rank equally with all of the existing and future senior debt of KBW and are senior to all existing and future subordinated debt of KBW. The KBW Senior Notes are senior obligations of UPC Germany HC1 that rank equally with all existing and future senior debt of UPC Germany HC1 and are senior to all existing and future subordinated debt of UPC Germany HC1.

The KBW Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of €25 million or more in the aggregate of KBW or UPC Germany HC1 (as applicable) or any of the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the KBW Notes.

The KBW Notes contain an incurrence-based Consolidated Leverage Ratio test, as defined in the applicable indenture.

The KBW Senior Secured Fixed Rate Notes are non-callable until March 15, 2015 and the KBW Senior Secured Floating Rate Notes are non-callable until March 15, 2012. The KBW Senior Notes are non-callable until March 15, 2016. At any time prior to March 15, 2015, in the case of the KBW Senior Secured Fixed Rate Notes or March 15, 2016, in the case of the KBW Senior Notes, KBW and UPC Germany HC1 (as applicable), may redeem some or all of the KBW Senior Secured Fixed Rate Notes and KBW Senior Notes (as applicable), by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments using the discount rate (as specified in the KBW Senior Secured Indenture and KBW Senior Indenture, as applicable) as of the redemption date plus 50 basis points.

During the period from March 31, 2012 through March 31, 2014, each of KBW and UPC Germany HC1 has the option, following completion of a UPC Exchange Transaction or a Unitymedia Exchange Transaction (in each case, as defined below), as the case may be, to redeem all but not less than all, of the KBW Notes issued by KBW or UPC Germany HC1, as applicable. The redemption price in such case (expressed as a percentage of the principal amount thereof) would be 101% (if such redemption is on or before March 31, 2013) or 102% (if such redemption is after March 31, 2013). A UPC Exchange Transaction means an exchange offer by UPC Broadband Holding B.V., UPCB Finance IV Limited or UPC Holding B.V. (all of which are subsidiaries of Liberty Global), as applicable, pursuant to which one or more series of UPC Qualified Notes (as defined in the indentures for the KBW Notes) issued by UPC Broadband Holding B.V., UPCB Finance IV Limited or UPC Holding B.V., as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of the applicable KBW Notes to participate in the exchange offer), offered in exchange for KBW Notes. A Unitymedia Exchange Transaction means an exchange offer by Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) and Unitymedia NRW GmbH (Unitymedia NRW), as co-issuers, or Unitymedia, as applicable, pursuant to which one or more series of Unitymedia Qualified Notes (as defined in the indentures for the KBW Notes) issued by Unitymedia Hessen and Unitymedia NRW, as co-issuers, or Unitymedia, as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of the applicable KBW Notes to participate in the exchange offer), offered in exchange for KBW Notes. Unitymedia is the parent company of Unitymedia Hessen and Unitymedia NRW and another subsidiary of Liberty Global.

KBW and UPC Germany HC1 (as applicable), may redeem all of the KBW Notes at prices equal to their respective principal amounts, plus accrued and unpaid interest, upon the occurrence of certain changes in tax law. If KBW and UPC Germany HC1 (as applicable) or certain of their subsidiaries sell certain assets or experience specific changes in control, KBW and UPC Germany HC1 (as applicable) must offer to repurchase the KBW Notes at a redemption price of 101%.

KBW and UPC Germany HC1 (as applicable), may redeem some or all of the KBW Notes at the redemption prices set forth in the indentures for the KBW Notes, plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date.

KBW Revolving Credit Facility

KBW is the borrower under a €100.0 million secured revolving credit facility agreement with certain lenders (the KBW Revolving Credit Facility), which was undrawn as of December 31, 2011. The interest rate for the KBW Revolving Credit Facility is EURIBOR plus a margin of 3.75%. Borrowings under the KBW Revolving Credit Facility, which mature on March 31, 2017, may be used for general corporate and working capital purposes. The KBW Revolving Credit Facility provides for an annual commitment fee of 1.50% on the unused portion.

In addition to customary restrictive covenants and events of default, the KBW Revolving Credit Facility requires compliance with a Consolidated Leverage Ratio, as defined in the KBW Revolving Credit Facility. The KBW Revolving Credit Facility is secured by first ranking security interests over the same collateral that secures the KBW Senior Secured Notes. The KBW Revolving Credit Facility is guaranteed on a senior basis by UPC Germany HC1, Kabel GP and each of our other subsidiaries that becomes a Significant Subsidiary (as defined in the KBW Revolving Credit Facility).

MATERIAL CONTRACTS

The agreements described below are of material importance to us or one of our operating subsidiaries as of December 31, 2011. Agreements entered into in the ordinary course of business are not described. For a description of our material financing agreements, see "Description of Indebtedness". The summary of each agreement set forth below is a summary of the material terms of such agreement as in effect as of the date of this annual report.

Material Supply Contracts

Agreements with Deutsche Telekom

In July 2003, we entered into a framework service agreement with Deutsche Telekom and certain of its affiliates for the lease of cable duct space for a portion of our cable network as well as for fiber optic transmission capacity, tower and facility space and for other services. In addition, we purchase a portion of the electricity required for the operation of our network through Deutsche Telekom under such agreement. The various services and assets provided by Deutsche Telekom are specified under so called "Term Sheets" that are part of the framework service agreement. The framework service agreement is a long-term contractual arrangement and has strict guidelines regarding Deutsche Telekom's ability to modify prices. The assets that are shared between our network and that of Deutsche Telekom include underground cable ducts used to house Deutsche Telekom's phone network and our cable television network, facilities which house Deutsche Telekom's phone switches and our cable television headends, fiber optic systems used to transmit both phone and cable television signals and electricity supplied to shared facilities. The term of the framework service agreement is unlimited, and Deutsche Telekom is generally not entitled to terminate the services provided under the Term Sheets on co-use of cable ducts (not including the offer of co-use of further cable ducts), cable protection tubes, fiber optic transmission systems or lease of space for broadband cable technology, except under certain circumstances. Deutsche Telekom may terminate the other services according to the applicable Term Sheets under certain circumstances. For example, if Deutsche Telekom decides to discontinue using cable ducts carrying our cables without replacing the ducts, it may terminate our rights to use such facilities. In addition, according to German law, lease agreements are subject to an ordinary termination right of either party after a term of 30 years.

Furthermore, we entered into an agreement with Deutsche Telekom for the lease of 862 MHz broadband cable systems in June 2008 and several amendment agreements thereto. The agreements have a term until June 2018 and may be terminated by Deutsche Telekom only for good cause (*wichtiger Grund*).

Other Significant Supply Contracts

Sky Deutschland

On June 29, 2009, we entered into an agreement with Sky Deutschland concerning the feed-in and marketing of Sky Deutschland's premium video packages. The agreement has a term until December 31, 2013. The contract also contains a license until the end of season 2012/2013 to distribute the Sky Deutschland programs to all our customers who have subscribed until a certain point in time to a certain triple-play bundle including broadband internet access, a telephone flat rate and access to Sky Deutschland's *Bundesliga* (German premier soccer league) channels. In addition, we agreed to market Sky Deutschland's packages on a standalone basis or in bundled offers together with our services (if Sky Deutschland has given prior consent to such bundled offers), based on a shared customer relationship. We and Sky Deutschland have agreed that each party will maintain a direct contractual relationship with new customers receiving Sky Deutschland's programming in combination with our services. We are responsible for customer service, billing and collections for all triple-play and related services and cover bad debt risk. Sky Deutschland must assign all claims against "bad payers" to us. Furthermore, we are responsible for providing the set-top boxes and smart cards on demand by the customer for reception of our and Sky Deutschland's offerings. We are also responsible to replace defective devices, to the extent those were delivered by us. If Sky Deutschland acquires new customers for our services, Sky Deutschland

receives a commission. As compensation for our services rendered to Sky Deutschland (including feed-in and distribution), we receive a share in the revenue Sky Deutschland receives from the customers.

Feed-in Agreements

We have entered into numerous feed-in agreements with public and commercial broadcasters for the analog and/or digital non-pay and pay carriage of their signals. The most important feed-in agreements are with the public broadcasters (ARD and ZDF), the RTL group and ProSiebenSat.1 group. Revenue from feed-in agreements accounted for approximately 5% of our 2011 revenue. ARD and ZDF have announced that they do not intend to pay any feed-in fees after January 1, 2013. The existing feed-in contract providing for carriage fees has not been terminated. We are unable to predict whether ARD or ZDF will maintain its position in this regard or what the impact of any such action will be on our financial position or results of operations. We intend to vigorously defend our existing business model regarding the feed-in of content and related use of capacity in our network.

Agreements with Housing Associations

Of our basic cable video RGUs, 62% reside in MDUs, and our top 20 MDU contracts accounted for approximately 5% of our total revenue (including amounts billed directly by our company to the building occupants for premium digital cable, broadband internet and telephony services) during 2011. For these customers, our contractual relationship is with a landlord or local housing association, many of which own or represent multiple buildings that house a large number of customers. In some cases, the housing association allows us to sell digital video (including our premium digital cable services), broadband internet and telephony services directly to individual tenants. Our contracts with the housing associations are, to a significant extent, medium and long-term contracts (current terms of the most important agreements will expire between 2012 and 2020). However, in connection with the LGI/KBW Transaction, our company and Unitymedia have agreed to grant early termination rights on certain agreements that our company and Unitymedia each have with the largest housing associations and which have a remaining term of more than three years. For additional information concerning the commitments our company and Unitymedia made to regulators in connection with the LGI/KBW Transaction, see "Business—Regulatory Matters—LGI/KBW Transaction Imposed Conditions". In addition, housing associations may terminate such agreements prematurely if, for example, the agreements are deemed to violate antitrust laws or laws governing general terms and conditions. There can be no assurance that we will be able to retain any of these customers or renew the contracts on commercially favorable terms, if at all.

Intercompany Agreements

On March 31, 2011, we entered into the KBW Musketeer Loan Facility with KBW Musketeer pursuant to which we loaned KBW Musketeer €337.6 million in cash pursuant to a loan agreement dated March 30, 2011. The amount loaned to KBW Musketeer was discounted from the €347.6 million principal amount of the KBW Musketeer Loan Facility, with the €10.0 million discount equal to KBW Musketeer's proportionate share of the KBW Senior Secured Notes issuance costs that were incurred by our company. This discount was being amortized as related-party interest income using the effective interest method over the term of the loan agreement. The stated interest rate of the KBW Musketeer Loan Facility was 9.5% per annum. During the remainder of 2011, we loaned an additional €148.4 million to KBW Musketeer under the KBW Musketeer Loan Facility, of which €132.6 million was a cash loan and the remaining €15.8 million was capitalized to principal in settlement of interest that was due on amounts outstanding pursuant to the KBW Musketeer Loan Facility.

In addition as part of the LGI/KBW Transaction, we entered into two notes receivable with UPC Germany HC2. The aggregate amount outstanding under those notes as of December 31, 2011 was €72.2 million.

As of December 31, 2011, our other current liabilities included €10.3 million of value-added tax liabilities payable to KBW Musketeer. KBW Musketeer remits value-added taxes on behalf of the consolidated Kabel BW group.

Effective with the 2012 Reorganization described above, Kabel BW, KBW Musketeer and UPC Germany HC2 will each be merged into KBW. The mergers were filed with the commercial register (*Amtsgericht*) on March 27, 2012 and will be effective upon registration. As a result of the 2012 Reorganization, (i) our receivables from, and payables to, KBW Musketeer and our receivables from UPC Germany HC2 will be extinguished, and (ii) KBW will become obligated under an intercompany note payable to UPC Germany HC1 that arose in connection with UPC Germany HC1's assumption of KBW Musketeer's obligations under the KBW Senior Notes.

Third-Party Copyrights

We have certain agreements with GEMA, VG Media and the RTL group regarding the payment of royalties for the retransmission of television and radio programs protected under the German Act on Copyright and Related Rights. For a description of these arrangements, see "Business—Intellectual Property".

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

TABLE OF CONTENTS

| | Page Number |
|--|----------------|
| | |
| Independent Auditors' Report | 11-2 |
| Consolidated Balance Sheets | 11-3 |
| Consolidated Statements of Operations | 11-5 |
| Consolidated Statements of Comprehensive Earnings | 11-6 |
| Consolidated Statements of Changes in Shareholder's Equity | 11-7 |
| Consolidated Statements of Cash Flows | 11-8 |
| Notes to Consolidated Financial Statements | 11-9 |

Independent Auditors' Report (Translation)

The following auditor's report (Bestätigungsvermerk) has been issued in accordance with § 322 German Commercial Code (Handelsgesetzbuch) in German language on the German version of the consolidated financial statements of Kabel BW Erste Beteiligungs GmbH as of and for the fiscal year ended December 31, 2011 and the group management report. The group management report is not included here. The management discussion & analysis was not subject to the audit.

"Independent Auditors' Report

We have audited the consolidated financial statements prepared by the Kabel BW Erste Beteiligungs GmbH, Heidelberg—comprising the consolidated balance sheet, the consolidated statement of operations and consolidated statement of comprehensive earnings, the consolidated statement of changes in shareholder's equity, the consolidated statement of cash flows and the notes to the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to § 315a I HGB ("German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer Institute of Public Auditor's in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of Kabel BW Erste Beteiligungs GmbH, Heidelberg, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a I HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Düsseldorf, March 28, 2012

Deloitte & Touche GmbH

Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Signed: Lammers Signed: Grünewald German Public Auditor German Public Auditor

KPMG AG

Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Signed: Wallraf Signed: Laue

German Public Auditor German Public Auditor

CONSOLIDATED BALANCE SHEETS

| <u>-</u> | Decei | December 31, | | |
|--|-----------|--------------|---------|--|
| _ | 2011 | 2011 | | |
| | in r | in millions | | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | € 26.2 | € | 101.0 | |
| Trade receivables and unbilled revenue, net (note 9) | 29.7 | | 24.2 | |
| Other current assets (notes 6 and 16) | 7.2 | | 11.2 | |
| Total current assets | 63.1 | | 136.4 | |
| Property and equipment, net (note 8) | 744.5 | | 734.3 | |
| Goodwill (note 8) | 840.0 | | 840.0 | |
| Intangible assets, net (note 8) | 244.0 | | 269.2 | |
| Notes receivable from direct and indirect shareholders (note 16) | 570.1 | | 2.0 | |
| Other noncurrent assets (note 9) | 26.4 | | 9.9 | |
| Total noncurrent assets | 2,425.0 | | 1,855.4 | |
| Total assets | € 2,488.1 | € | 1,991.8 | |

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

CONSOLIDATED BALANCE SHEETS – (Continued)

| | December 31, | | |
|---|--------------|--------------|--|
| | 2011 | 2010 | |
| | in millions | | |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | | |
| Comment Helitates | | | |
| Current liabilities: | 6 242 | 6 20.2 | |
| Accounts payable | | € 39.2 | |
| Accrued liabilities (note 10) | | 38.1 | |
| Corporate income taxes payable | | 13.5 | |
| Deferred revenue and advance payments from subscribers and others | 37.5 | 44.1 | |
| Current portion of debt (note 12) | | 122.1 | |
| Other current liabilities (notes 6 and 16) | | 2.7 | |
| Total current liabilities | <u>164.3</u> | <u>259.7</u> | |
| Noncurrent debt (note 12) | 1,563.4 | 1,041.2 | |
| Deferred tax liabilities (note 14) | | 14.7 | |
| Deferred revenue and advance payments from subscribers and others | . — | 10.0 | |
| Derivative instruments (note 6) | | 21.3 | |
| Noncurrent provisions (note 11) | | 9.8 | |
| Total noncurrent liabilities | | 1,097.0 | |
| Total liabilities | | 1,356.7 | |
| | | | |
| Commitments and contingencies (note 13) | | | |
| Shareholder's equity (note 15): | | | |
| Share capital | _ | _ | |
| Additional paid-in capital | | 403.4 | |
| Retained earnings | | 242.1 | |
| Accumulated other comprehensive losses | | (10.4) | |
| Total shareholder's equity | | 635.1 | |
| Total liabilities and shareholder's equity | | € 1,991.8 | |
| | | | |

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

CONSOLIDATED STATEMENTS OF OPERATIONS

| | | Year ended December 31, | | | | | | |
|--|---|-------------------------|----|--------------|------|----------|--|------|
| | | 2011 | | | 2010 | | | 2009 |
| | | | ir | millions | | | | |
| Revenue | € | 606.6 | € | <u>551.5</u> | € | 485.0 | | |
| Operating costs and expenses: | | | | | | | | |
| Operating (other than depreciation and amortization) (OpEx) | | 188.0 | | 173.5 | | 169.2 | | |
| amortization) (SG&A) | | 66.0 | | 64.8 | | 58.5 | | |
| Impairments and other operating charges, net (note 8) | | 3.3 | | 9.6 | | 3.5 | | |
| Total operating costs and expenses | | 257.3 | | 247.9 | | 231.2 | | |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | | 349.3 | | 303.6 | | 253.8 | | |
| Depreciation and amortization | | 147.2 | | 136.4 | | 125.0 | | |
| Earnings before interest and taxes (EBIT) | | 202.1 | | 167.2 | | 128.8 | | |
| Financial and other income (expense): | | | | | | | | |
| Interest expense (note 7) | | (105.3) | | (76.5) | | (72.6) | | |
| Interest income (note 7): | | (100.0) | | (, 0.0) | | (, =, 0) | | |
| Third party | | 1.7 | | 0.6 | | 0.3 | | |
| Related party (note 16) | | 27.8 | | 0.1 | | 0.2 | | |
| Foreign currency transaction losses (note 7) | | (30.4) | | _ | | _ | | |
| Realized and unrealized losses on derivative instruments (notes 5 and 6) | | (9.7) | | _ | | (10.1) | | |
| Loss on extinguishment of debt (note 12) | | (12.5) | | _ | | _ | | |
| Net financial expense | | (128.4) | | (75.8) | | (82.2) | | |
| Other income | | _ | | 1.4 | | 2.0 | | |
| Net financial and other expense | | (128.4) | | (74.4) | | (80.2) | | |
| Earnings before income taxes | | 73.7 | | 92.8 | | 48.6 | | |
| Income tax benefit (expense) (note 14) | | (2.7) | | 44.7 | | (9.3) | | |
| Net earnings | € | 71.0 | € | 137.5 | € | 39.3 | | |
| Further details of OpEx and SG&A: | | | | | | | | |
| Direct costs (interconnect, programming, copyright, cost of goods sold and | | | | | | | | |
| other) | € | 74.0 | € | 70.8 | € | 64.8 | | |
| Staff-related costs | | 51.9 | C | 45.8 | · | 41.3 | | |
| Network operating costs | | 53.3 | | 52.6 | | 52.1 | | |
| Sales and marketing costs | | 25.5 | | 23.5 | | 23.6 | | |
| Other indirect costs | | 49.3 | | 45.6 | | 45.9 | | |
| 3 (10) III (10) (00) (00) | € | 254.0 | € | 238.3 | € | 227.7 | | |
| Further details of impairments and other operating charges, net: | | _0 110 | | | | | | |
| Impairment charges | € | 4.7 | € | 9.7 | € | 3.3 | | |
| Other, net | | (1.4) | - | (0.1) | - | 0.2 | | |
| | € | 3.3 | € | 9.6 | € | 3.5 | | |

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

| | Year ended December 31, | | | | | | |
|--|-------------------------|---------------|----|----------|---|--------|--|
| | | 2011 2010 | | | | 2009 | |
| | | | in | millions | | | |
| Net earnings | € | 71.0 | € | 137.5 | € | 39.3 | |
| Other comprehensive earnings (loss): Unrealized gains (losses) on cash flow hedges | | 2.2 | | (22.9) | | (18.6) | |
| Reclassification adjustment for losses on cash flow hedges included in net earnings (note 4) | | 12.7 | | 20.0 | | 6.6 | |
| before income taxes | | 14.9 | | (2.9) | | (12.0) | |
| Tax benefit (expense) | | <u>(4.5</u>) | | 0.9 | | 3.6 | |
| Other comprehensive earnings (loss) | | 10.4 | | (2.0) | | (8.4) | |
| Comprehensive earnings | | 81.4 | € | 135.5 | € | 30.9 | |

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

| - | Share capital (note 15) | Additional paid-in capital | | Retained <u>earnings</u> in million | | con <u>losses</u> | other nprehensive s, net of taxes | | |
|------------------------------|-------------------------------|----------------------------------|-------|---|--------------|----------------------|---|----|-------|
| Delener et leurem 1, 2000 | C | 6 | 400.4 | 6 | / F 2 | 6 | | - | 4/0.7 |
| Balance at January 1, 2009 | € — | € | 403.4 | € | 65.3 | € | _ | € | 468.7 |
| Net earnings | _ | | _ | | 39.3 | | _ | | 39.3 |
| Other comprehensive loss | | | | | | | (8.4) | | (8.4) |
| Balance at December 31, 2009 | _ | | 403.4 | | 104.6 | | (8.4) | | 499.6 |
| Net earnings | _ | | _ | | 137.5 | | _ | | 137.5 |
| Other comprehensive loss | | | | | | | (2.0) | | (2.0) |
| Balance at December 31, 2010 | _ | | 403.4 | | 242.1 | | (10.4) | | 635.1 |
| Net earnings | _ | | _ | | 71.0 | | _ | | 71.0 |
| Other comprehensive earnings | | | | | | | 10.4 | | 10.4 |
| Balance at December 31, 2011 | € | € | 403.4 | € | 313.1 | € | | _€ | 716.5 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | | | |
|--|-------------------------|-------------|----------|--|--|
| | 2011 | 2010 | 2009 | | |
| | | in millions | | | |
| Cash flows from operating activities: | | | | | |
| Net earnings | € 71.0 | € 137.5 | € 39.3 | | |
| Adjustments to reconcile net earnings to net cash provided by | £ /1.0 | € 137.3 | € 37.3 | | |
| operating activities: | | | | | |
| Impairment and other operating charges, net | 3.3 | 9.6 | 3.5 | | |
| Depreciation and amortization | 147.2 | 136.4 | 125.0 | | |
| Amortization of deferred financing costs and non-cash interest | 6.3 | 14.4 | 14.1 | | |
| Foreign currency transaction losses | 30.4 | | | | |
| Realized and unrealized losses on derivatives | 9.7 | _ | 10.1 | | |
| Loss on extinguishment of debt | 12.5 | _ | — | | |
| Deferred tax expense (benefit) | (6.7) | (52.5) | 2.6 | | |
| Changes in operating assets and liabilities, net of the effects of | (0.7) | (02.0) | 2.0 | | |
| acquisitions and dispositions | (56.9) | 6.8 | (30.1) | | |
| Net cash provided by operating activities | | 252.2 | 164.5 | | |
| Not dust provided by operating detivities | 210.0 | 202.2 | 101.0 | | |
| Cash flows from investing activities: | | | | | |
| Loans made to direct and indirect shareholders | (540.2) | _ | _ | | |
| Capital expenditures | (137.6) | (142.8) | (146.1) | | |
| Other investing activities | ` , | (15.0) | 0.2 | | |
| Net cash used by investing activities | | (157.8) | (145.9) | | |
| not each accar by miscoming accurate minimum. | (3.3.3) | (.07.0) | (1.1017) | | |
| Cash flows from financing activities: | | | | | |
| Borrowings of third-party debt | 1,575.4 | 55.0 | 40.0 | | |
| Repayments of third-party debt | (1,129.3) | (102.9) | (71.4) | | |
| Payment of financing costs | (45.6) | _ | _ | | |
| Cash paid upon termination of derivative contracts | | _ | _ | | |
| Net cash provided (used) by financing activities | | (47.9) | (31.4) | | |
| p (, .g g | | | | | |
| Net increase (decrease) in cash and cash equivalents | (74.8) | 46.5 | (12.8) | | |
| Cash and cash equivalents: | | | | | |
| Beginning of period | 101.0 | 54.5 | 67.3 | | |
| End of period | | € 101.0 | € 54.5 | | |
| | | | | | |
| The following cash receipts (payments) are included in net cash | | | | | |
| provided by operating activities: | | | | | |
| Interest paid (excluding payments related to derivative | | | | | |
| instruments) | € 118.1 | € 43.6 | € 54.7 | | |
| Interest received | | € 0.6 | € 0.4 | | |
| Net cash paid for taxes | | € 3.0 | € 6.3 | | |
| test sacri para for taxos minimum mini | <u> </u> | <u> </u> | <u> </u> | | |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2011

(1) General and Basis of Presentation

Kabel BW Erste Beteiligungs GmbH (Kabel BW) is a limited liability company organized under German law with its registered office and headquarters in Heidelberg, Germany. As of December 31, 2011, its sole shareholder was Kabel BW Musketeer GmbH, Heidelberg (previously named Musketeer GmbH, Berlin) (KBW Musketeer).

Kabel BW, through its subsidiaries, operates a broadband cable network in the federal state of Baden-Württemberg in the southwest of Germany, providing analog and digital television, as well as broadband internet and telephony services to its customers.

On December 15, 2011, UPC Germany HoldCo 2 GmbH (UPC Germany HC2), an indirect wholly-owned subsidiary of Liberty Global, Inc. (Liberty Global), purchased all of the outstanding shares of KBW Musketeer from Oskar Rakso S.à r.l, Luxembourg (Oskar Rakso) (the LGI/KBW Transaction). During the time that Oskar Rakso directly or indirectly owned Kabel BW, Oskar Rakso was directly owned by Wire Holding Guernsey Ltd., and indirectly held by the EQT funds IV and V.

As part of an internal reorganization (the 2012 Reorganization) that is to be effected through a series of mergers and consolidations, Kabel BW, KBW Musketeer and UPC Germany HC2 will each be merged into Kabel BW GmbH (formerly known as Kabel BW Holdings GmbH) (KBW). The mergers were filed with the commercial register (Amtsgericht) on March 27, 2012 and will be effective upon registration. At December 31, 2011, KBW was the direct subsidiary of Kabel BW that owned all of the operating assets of the consolidated Kabel BW group. As a result of the 2012 Reorganization, which we will account for as a common control transfer at carryover basis, (i) UPC Germany HC2's cost to acquire KBW Musketeer in the LGI/KBW Transaction will be reflected in KBW's consolidated financial statements effective January 1, 2012, as further described in note 17, and (ii) the changes to the intercompany loans described in note 16 will be reflected in KBW's consolidated financial statements effective January 1, 2012.

In the following text, the terms "Kabel BW", "we," "our," "our company," and "us" may refer, as the context requires, to Kabel BW, or collectively to Kabel BW and its subsidiaries.

Our annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS) and the additional requirements of German Commercial Law pursuant to Sec. 315 a (3) German Commercial Code (HGB).

The KBW Senior Secured Notes and the KBW Senior Notes, (together, the KBW Notes) are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market, which is not a regulated market (as defined by Article 1 (13) of Directive 93/22/EEC). The KBW Senior Secured Notes are obligations of KBW and the KBW Senior Notes are obligations of our immediate parent (KBW Musketeer at December 31, 2011 and UPC Germany HoldCo 1 GmbH (UPC Germany HC1) following the March 27, 2012 completion of certain transactions in connection with the 2012 Reorganization). For additional information and a definition and description of the KBW Notes, see note 12.

Our functional currency is the euro. Unless otherwise indicated, convenience translations into euros are calculated as of December 31, 2011.

These consolidated financial statements, which include information with respect to 2009 to enhance comparability, were approved for publication by the Managing Directors on March 28, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 31, 2011

(2) Reclassifications

Our financial statements have been revised to conform to Liberty Global's financial statement presentation policies. As a result, prior period amounts have been reclassified to conform to the current year presentation. The reclassifications that impact our statements of operations are summarized below:

| | Year ended December 31, 2010 | | | | | |
|--|------------------------------|-------------------|----------------|--|--|--|
| | As previously | | As currently | | | |
| | reported | Reclassifications | reported | | | |
| | - | in millions | - | | | |
| Revenue | <u>€ 546.8</u> | € 4.7 | <u>€ 551.5</u> | | | |
| Other operating income | <u>16.6</u> | <u>(16.6</u>) | | | | |
| Operating costs and expenses: | | | | | | |
| OpEx | _ | 173.5 | 173.5 | | | |
| SG&A | 67.4 | (2.6) | 64.8 | | | |
| Cost of goods sold | 84.9 | (84.9) | _ | | | |
| Personnel costs | 56.4 | (56.4) | _ | | | |
| Technical expenses less capitalized expenses | 39.0 | (39.0) | _ | | | |
| Impairments and other operating charges, net | | 9.6 | 9.6 | | | |
| | <u>247.7</u> | 0.2 | <u>247.9</u> | | | |
| EBITDA | 315.7 | (12.1) | 303.6 | | | |
| Depreciation and amortization | 146.1 | (9.7) | 136.4 | | | |
| EBIT | 169.6 | (2.4) | 167.2 | | | |
| Interest expense | _ | (76.5) | (76.5) | | | |
| Interest income | _ | 0.7 | 0.7 | | | |
| Finance income | 0.7 | (0.7) | _ | | | |
| Finance expenses | (77.4) | 77.4 | _ | | | |
| Net financial expense | | 0.9 | (75.8) | | | |
| Other income | | 1.4 | 1.4 | | | |
| Net financial and other expense | | 2.3 | (74.4) | | | |
| | / | | / | | | |
| Earnings before income taxes | 92.9 | (0.1) | 92.8 | | | |
| Income tax benefit | 44.6 | 0.1 | 44.7 | | | |
| Net earnings | <u>€ 137.5</u> | € – | <u>€ 137.5</u> | | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

| | Year ended December 31, 2009 | | | | | |
|--|------------------------------|-------------------|-----------------------|--|--|--|
| | As previously reported | Reclassifications | As currently reported | | | |
| | | in millions | | | | |
| Revenue | | <u>€</u> 4.3 | € 485.0 | | | |
| Other operating income | 12.6 | <u>(12.6</u>) | | | | |
| Operating costs and expenses: | | | | | | |
| OpEx | _ | 169.2 | 169.2 | | | |
| SG&A | | (8.9) | 58.5 | | | |
| Cost of goods sold | 75.7 | (75.7) | _ | | | |
| Personnel costs | 52.3 | (52.3) | _ | | | |
| Technical expenses less capitalized expenses | 37.9 | (37.9) | _ | | | |
| Impairments and other operating charges, net | | 3.5 | 3.5 | | | |
| | 233.3 | (2.1) | 231.2 | | | |
| EBITDA | 260.0 | (6.2) | 253.8 | | | |
| Depreciation and amortization | 128.2 | (3.2) | 125.0 | | | |
| EBIT | 131.8 | (3.0) | 128.8 | | | |
| Interest expense | _ | (72.6) | (72.6) | | | |
| Interest income | _ | 0.5 | 0.5 | | | |
| Realized and unrealized losses on derivative instruments | | (10.1) | (10.1) | | | |
| Finance income | | (0.5) | _ | | | |
| Finance expenses | (83.4) | 83.4 | _ | | | |
| Net financial expense | | 0.7 | (82.2) | | | |
| Other income | | 2.0 | 2.0 | | | |
| Net financial and other expense | | 2.7 | (80.2) | | | |
| Earnings before income taxes | 48.9 | (0.3) | 48.6 | | | |
| Income tax expense | (9.6) | 0.3 | (9.3) | | | |
| Net earnings | € 39.3 | € | € 39.3 | | | |

We have also reclassified certain amounts in our prior period consolidated balance sheet and consolidated statements of cash flows to conform to Liberty Global's financial statement presentation policies. With the exception of the reclassifications of the capital expenditure amounts reported in our consolidated statements of cash flows that we describe below, these reclassifications were not material. The prior year reclassifications that impacted the capital expenditure amounts reported in our consolidated statements of cash flows are shown in the below table:

| | | Year ended December 31, | | | | |
|---|-------------|-------------------------|------|-------|--|--|
| | | 2010 | 2009 | | | |
| | in millions | | | | | |
| Capital expenditures as previously reported | € | 150.1 | € | 149.0 | | |
| Change in classification of customer premises equipment (a) | | 5.2 | | (2.9) | | |
| Asset acquisition (b) | | (12. <u>5</u>) | | | | |
| Capital expenditures as currently reported | € | 142.8 | € | 146.1 | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

- (a) Previously, all purchases of customer premises equipment were considered operating cash outflows in our consolidated statement of cash flows and current assets in our consolidated balance sheets. Under the new presentation, purchases of customer premises equipment that are not expected to be sold to subscribers are reported as capital expenditures in our consolidated statements of cash flows and as property and equipment in our consolidated balance sheets.
- (b) Represents the acquisition of certain cable network and other intangible assets of a cable distributor in Germany during 2010. This was previously reported as a capital expenditure in our consolidated statement of cash flows and is now reported in other investing activities in our consolidated statement of cash flows for the year ended December 31, 2010.

(3) Accounting Changes and Recent Pronouncements

First-time Application of Accounting Standards

The application of the following accounting standards did not have any impact on our consolidated financial statements:

| Standard/ Interpretation | Title | Applicable for reporting periods beginning on or after | Date of endorsement by the EU |
|--|---|---|-------------------------------------|
| Annual Improvements to IFRS (May 2010) | Collection of amendments to several standards and interpretations | January 1, 2011 Partly applicable: July 1, 2010 | February 18, 2011 |
| IFRS 1 (amendments) | Limited exemption from comparative IFRS 7 disclosures for first-time adopters | July 1, 2010 | June 30, 2010 |
| International Accounting Standard (IAS) 24 (revised) | Related party disclosures | January 1, 2011 | July 19, 2010 |
| IAS 32 (amendments) | Classification of Rights Issues | February 1, 2010 | December 23, 2009 |
| IFRS Interpretations Committee (IFRIC) 14 (amendments) | IAS 19 – The limit of a defined benefit asset, minimum funding requirements and their interaction | January 1, 2011 | July 19, 2010 |
| IFRIC 19 | Extinguishing financial liabilities with equity instruments | July 1, 2010 | July 23, 2010 |

In May 2010, as part of its project of annual improvements, the International Accounting Standards Board (IASB) issued a collection of amendments to six accounting standards and one interpretation, which include amendments in relation to recognition, measurement and presentation of transactions as well as terminology and editorial amendments. The application of these amendments did not have any significant impact on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

New Accounting Standards, Not Yet Effective

The following accounting standards have been issued by the IASB but are not yet effective for the reporting period. We have not early adopted any of these accounting standards.

| Standard/ Interpretation | Title | Applicable for reporting periods beginning on or after | Date of endorsement by the EU |
|-----------------------------|--|---|-------------------------------------|
| IAS 1 (amendments) | Presentation of items of other comprehensive income | July 1, 2012 | Not yet endorsed |
| IAS 12 (amendments) | Deferred tax: recovery of underlying assets | January 1, 2012 | Not yet endorsed |
| IAS 19 (revised) | Amendments to IAS 19 employee benefits | January 1, 2013 | Not yet endorsed |
| IAS 27 (amendments) | Separate financial statements | January 1, 2013 | Not yet endorsed |
| IAS 28 (amendments) | Investments in associates and joint ventures | January 1, 2013 | Not yet endorsed |
| IAS 32 (amendments) | Offsetting Financial Assets and Financial Liabilities | January 1, 2014 | Not yet endorsed |
| IFRS 1 (amendments) | Severe hyperinflation and removal of fixed dates for first-time adopters | July 1, 2011 | Not yet endorsed |
| IFRS 7 (amendments) | Amendments to IFRS 7 financial instruments: disclosures | July 1, 2011 | November 22, 2011 |
| IFRS 7 (amendments) | Disclosures—Offsetting Financial Assets and Financial Liabilities | January 1, 2013 | Not yet endorsed |
| IFRS 9 | Financial instruments | January 1, 2015 | Not yet endorsed |
| IFRS 10 | Consolidated financial statements | January 1, 2013 | Not yet endorsed |
| IFRS 11 | Joint arrangements | January 1, 2013 | Not yet endorsed |
| IFRS 12 | Disclosure of interests in other entities | January 1, 2013 | Not yet endorsed |
| IFRS 13 | Fair value measurement | January 1, 2013 | Not yet endorsed |

We have not fully evaluated the impacts of applying these new, but not yet effective accounting standards on our consolidated financial statements, however, we currently do not expect the impact to be material.

(4) Summary of Significant Accounting Policies

Estimates

The preparation of financial statements in conformity with EU-IFRS 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 the related recognition of deferred tax assets, loss contingencies, fair value measurements, impairment assessments, capitalization of internal costs associated with construction and installation activities, and useful lives of long-lived assets. Actual results could differ from those estimates.

As a result of the LGI/KBW Transaction and the merger of UPC Germany HC2 into KBW in connection with the 2012 Reorganization, UPC Germany HC2's cost to acquire KBW Musketeer will be reflected in KBW's consolidated financial statements effective January 1, 2012. As part of the acquisition accounting, property and equipment and intangible assets will be measured at their current estimated fair values. In addition, the estimated remaining useful lives of these assets will be reassessed based on the outcome of the valuation exercise and Liberty Global's planned use and disposition of KBW's long-lived assets. As a result of the foregoing, we expect that KBW's depreciation and amortization expense in 2012 will be materially different than the amount reported by Kabel BW for 2011. For

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

additional information concerning the impacts of the 2012 Reorganization, see notes 1 and 17. We are also evaluating the need to change certain of our policies and accounting estimates to conform to Liberty Global's polices and accounting estimates. We are not yet in a position to conclude whether this process will result in any material changes to our policies or accounting estimates.

Principles of consolidation

The accompanying consolidated financial statements include our accounts and the accounts of all voting interest entities where we exercise a controlling financial interest through the ownership of a direct or indirect controlling voting interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

In addition to Kabel BW, the parent company, the following subsidiaries were included in our consolidated financial statements at December 31, 2011:

| Name of Subsidiary | Headquarters location | Share of Equity % |
|---|-----------------------|----------------------|
| KBW | Heidelberg, Germany | 100.0 |
| Kabel Baden-Württemberg Verwaltungs-GmbH (Kabel GP) | Heidelberg, Germany | 100.0 |

As of December 31, 2011, Kabel BW was the sole shareholder of KBW, and KBW owned all outstanding shares of Kabel GP. As of April 30, 2011, Kabel GP withdrew as general partner of the limited partnership, Kabel Baden-Württemberg GmbH and Co. KG (Kabel Partnership), and upon withdrawal, Kabel Partnership was merged into KBW, with KBW as the surviving entity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits which have a maturity of three months or less at the time of acquisition. Cash and cash equivalents are measured at cost.

Trade receivables

Our trade receivables are initially measured at fair value and subsequently reported at amortized cost, net of an allowance for impairment of trade receivables. The allowance for impairment of trade receivables is estimated based upon our assessment of anticipated loss related to uncollectible accounts receivable. We use a number of factors in determining the allowance, including, among other things, collection trends, prevailing and anticipated economic conditions, specific customer and historical experience. The allowance is maintained until either receipt of payment or the likelihood of collection is considered to be remote.

Property and equipment

Property and equipment are measured at initial cost less accumulated depreciation and any accumulated impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The initial cost comprises the purchase price, borrowing costs (if applicable), costs of construction including direct materials and labor, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the costs of dismantling and removing the items and restoring the site on which the assets are located. No borrowing costs were capitalized during the periods presented.

Depreciation is computed on a straight-line basis over the estimated useful lives of each major component of an item of property and equipment. The distribution systems have estimated useful lives ranging from 5 to 35 years. Support equipment and buildings (including leasehold improvements) have estimated useful lives ranging from 3 to 12 years. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each reporting date and may be adjusted based on management's expectations of future use.

Property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment exists when the carrying value exceeds the recoverable amount. The recoverable amount is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

the higher of fair value less costs to sell and value in use. For purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Impairment losses are reversed if the reasons for the impairment loss no longer exist or the impairment loss has decreased.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will be achieved and when the cost can be measured reliably. The carrying amount of any replaced item is derecognized. All other expenditures for repairs and maintenance are expensed as incurred.

Gains and losses due to disposals are included in impairments and other operating charges, net.

Intangible assets

Our primary intangible assets are goodwill, customer relationships, trade name, subscriber acquisition costs and software. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective estimated useful lives on a straight-line basis and reviewed for impairment when circumstances warrant. Each reporting period we evaluate the estimated useful lives of our intangible assets that are subject to amortization to determine whether events or circumstances warrant revised estimates of useful lives.

Goodwill represents the excess purchase price over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually, or more frequently when there is an indication that it may be impaired. If the recoverable amount (i.e. the higher of fair value less costs to sell or value in use) of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in a subsequent period. Through 2011, our annual goodwill impairment tests were performed on November 30. Beginning in 2012, these annual impairment tests will be conducted on October 1.

Customer relationships are recognized at their fair values upon acquisition and are amortized over lives ranging from 6 to 38 years. Subscriber acquisition costs are recognized as incurred when such costs are directly attributable to obtaining a new customer contract, are paid to a third party, can be measured reliably and meet the definition of an intangible asset. Subscriber acquisition costs are amortized over the applicable contractual life, which generally ranges from 1 to 2 years.

The trade name was initially recognized at its fair value in connection with a business combination, and because there was no foreseeable limit to the period over which this asset was expected to generate net cash inflows, it was considered to have an indefinite life and therefore, was not amortized. However, in connection with the LGI/KBW Transaction, the useful life of the trade name was re-evaluated and was assigned a useful life of five years effective December 15, 2011.

Costs associated with maintaining computer software are expensed as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by us for which it is probable that the expected future economic benefits attributable to the assets would flow to our company beyond one year are recognized as intangible assets. Capitalized internal-use software costs include only external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote time to the project. Capitalization of these costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Capitalized internal-use software costs are amortized on a straight-line basis over their applicable expected useful lives ranging from 1 to 5 years. Where no internal-use intangible asset can be recognized, development expenditures are expensed as incurred.

Licenses are amortized over their expected useful lives ranging from 3 to 20 years.

Subsequent expenditures related to intangible assets are capitalized only when the expenditures increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated brands, are expensed as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to us. Property and equipment acquired by way of a finance lease are initially stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease. The leased asset is subsequently depreciated over the shorter of its useful life or the lease term and is subject to impairment assessments as a component of the applicable cash-generating unit. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in noncurrent debt with the interest element of the lease payment charged to our consolidated statements of operations over the lease period. All other leases are classified as operating lease payments and recognized in our consolidated statements of operations on a straight-line basis over the term of the lease.

We have entered into various long-term service level agreements with Deutsche Telekom AG (Deutsche Telekom) and certain of its affiliates that are significant to our business, in particular for the lease of cable duct space. Generally, the terms per the agreements are unlimited, yet we have certain termination rights which are entirely at our discretion. According to German law, lease agreements are subject to a termination right of either party after a term of 30 years. We do not capitalize these cable ducts as finance leases as a result of management assumptions made regarding the expected usage of the cable ducts at the inception of the contracts.

Financial Instruments

Cash and cash equivalents, current trade and other receivables, other current assets, accounts payable, accrued liabilities, subscriber advance payments and deposits and other current liabilities are initially recognized at fair value and subsequently carried at amortized cost. Due to their relatively short maturities, the carrying values of these financial instruments approximate their respective fair value. The carrying amounts of trade receivables with a remaining term of more than one year are included in noncurrent assets and the carrying amount of these receivables approximates their fair value.

Loans and other receivables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

For information concerning the fair value of our debt, see note 12.

Derivative instruments

All derivative instruments, whether designated as hedging relationships or not, are recorded on the balance sheet at fair value. We use interest rate swaps and cross-currency swaps for hedging interest rate and foreign currency risks, respectively.

If the derivative instrument is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative instrument are recorded in other comprehensive loss and subsequently reclassified into our consolidated statement of operations when the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. If the derivative instrument is not designated as a hedge, changes in the fair value of the derivative instrument are recognized in realized and unrealized gains (losses) on derivative instruments in our consolidated statements of operations.

Bonds and bank liabilities

Bonds and bank liabilities are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value of our bond and bank liabilities is recognized in our consolidated statements of operations over the respective terms of the borrowings using the effective interest method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Provisions

Provisions are liabilities of uncertain timing and/or amount. A provision is recognized when a present legal or constructive obligation as a result of a past event exists, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Foreign Currency Transactions

The euro is our functional currency. Transactions denominated in currencies other than the euro are recorded based on exchange rates at the time such transactions arise. Changes in exchange rates with respect to monetary items (e.g. cash held in a foreign currency or assets and liabilities to be received or paid in a fixed or determinable number of foreign currency units) recorded in our consolidated balance sheet result in transaction gains and losses that are reflected in our consolidated statement of operations as foreign currency transaction gains (losses).

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of our activities. Revenue is presented net of value-added tax, rebates and discounts and after eliminating intercompany sales within the consolidated group.

We derive revenue from five main business activities: our digital and analog cable television products and services, broadband internet services, telephony products and services (including subscription and usage fees) and carriage fees paid by broadcasters.

Revenue is recognized when services have been provided, the costs incurred can be measured reliably and we are not obliged to provide any future services. Prepayments are deferred and amortized on a straight-line basis over the service period.

When free or discounted service periods or other customer incentives are offered to customers in relation to a subscription, we recognize the total amount of billable revenue that we expect to receive from customers in equal monthly installments over the term of the contract provided that we have the enforceable and contractual right to deliver products to the customer after the promotional period. If free months are given without a contract at the beginning of a subscription period, we do not recognize revenue during the free months as the customer's continuance is not assured.

For multiple element arrangements, the recognition criteria of revenue are applied to the separately identifiable components of the transaction. A component within an arrangement is separated if it has standalone value to the customer and if its fair value can be measured reliably. The fair value of the consideration received or receivable is allocated to the separate components of the arrangement using the residual fair value method.

Revenue resulting from the sale of goods is realized when the significant risks and rewards of ownership are transferred to the customer.

Installation fees generally are recognized as services are rendered.

For information regarding our policy for allocating product revenue, see *Segments* below.

Income taxes

Current taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities at undiscounted values. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted as of the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Deferred taxes

Generally, deferred taxes are recognized for any temporary differences between the tax base and the EU-IFRS base, except in situations where goodwill is not recognized for tax purposes.

Deferred tax assets are recognized for deductible temporary differences and tax loss and interest carryforwards if it is probable that future taxable earnings will be available, against which the unused tax losses or temporary differences can be utilized. However, deferred tax assets are not recognized if the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting earnings nor taxable earnings.

The recoverability of the carrying value of deferred taxes is determined based on management's estimates of future taxable earnings. If it is no longer probable that enough future taxable earnings will be available, against which the unused tax losses or temporary differences can be used, an impairment in a corresponding amount is recognized on the deferred tax assets.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred taxes are not discounted.

If the changes in the value of assets or liabilities are recognized in a separate component of equity, the change of value of the corresponding deferred tax assets and liabilities are also recognized in this separate component of equity (instead of income tax expense).

Deferred tax assets and liabilities are offset in our consolidated balance sheets if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

For additional information concerning our income taxes, see note 14.

Segments

Consistent with how Liberty Global's chief operating decision maker reviews the operating results of Kabel BW, the cable segment is the only segment in which we operate. Prior to the LGI/KBW Transaction, we reported three segments: Television, Telecommunication and Other. Our cable segment provides digital and analog video, broadband internet and telephony services to residential and business customers over an integrated broadband communications network.

We operate in one geographical area, the country of Germany.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Our revenue by major product category is as follows:

| | Year ended December 31, | | | | | | | | |
|------------------------------|-------------------------|---------------|----|--------------|---|-------|--|--|--|
| | | 2011 | | 2010 | | 2009 | | | |
| | | | in | millions | | | | | |
| Subscription revenue (a): | | | | | | | | | |
| Video | € | 299.3 | € | 291.8 | € | 281.8 | | | |
| Broadband internet | | 93.9 | | 77.5 | | 56.7 | | | |
| Telephony | | 143. <u>4</u> | | 118.2 | | 92.0 | | | |
| Total subscription revenue | | 536.6 | | 487.5 | | 430.5 | | | |
| Non-subscription revenue (b) | | 70.0 | | 64.0 | | 54.5 | | | |
| Total revenue | € | 606.6 | € | <u>551.5</u> | € | 485.0 | | | |

⁽a) Subscription revenue includes amounts received from subscribers for ongoing services, excluding installation fees and late fees. 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. Prior period amounts have been reclassified to conform to current year presentation. As we did not sell our broadband internet and telephony products on a standalone basis during 2009, the 2009 allocation is based on our 2010 standalone pricing for these products.

⁽b) Non-subscription revenue includes carriage fee, interconnect and installation revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(5) Financial Risk Management

Overview

We have exposure to the following risks that arise from our financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Our exposure to each of these risks, the policies and procedures that we use to manage these risks and our approach to capital management are discussed below in this note. As a subsidiary of Liberty Global, our approach to the management of these risks is integrated with Liberty Global's overall risk management policies and procedures.

Credit Risk

Credit risk is the risk that we would experience financial loss if our customers or the counterparties to our derivative and other financial instruments, undrawn debt facilities and cash investments were to default on their obligations to us.

We manage the credit risks associated with our trade receivables by performing credit verifications, following established dunning procedures and engaging collection agencies. We also manage this risk by disconnecting services to customers whose accounts are delinquent. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers.

We manage the credit risks associated with our derivative and other financial instruments, cash investments and undrawn debt facilities primarily through the evaluation and monitoring of the creditworthiness of the respective counterparties. In addition, most of our cash is invested in overnight deposits with banks having a minimum credit rating of A. To date, neither the access to, nor the value of, our cash and cash equivalent balances have been adversely impacted by liquidity problems of financial institutions. We and the counterparties to our derivative instruments do not post collateral or other security, nor have we entered into master netting arrangements with any of our counterparties.

Under our derivative contracts, it is generally only the non-defaulting party that has a contractual option to exercise early termination rights upon the default of the other counterparty and to set off other liabilities against sums due upon such termination. However, in an insolvency of a derivative counterparty, under the laws of certain jurisdictions, the defaulting counterparty or its insolvency representatives may be able to compel the termination of one or more derivative contracts and trigger early termination payment liabilities payable by us, reflecting any mark-to-market value of the contracts for the counterparty. Alternatively, or in addition, the insolvency laws of certain jurisdictions may require the mandatory set-off of amounts due under such derivative contracts against present and future liabilities owed to us under other contracts between us and the relevant counterparty. Accordingly, it is possible that we may be subject to obligations to make payments, or may have present or future liabilities owed to us partially or fully discharged by set-off as a result of such obligations, in the event of the insolvency of a derivative counterparty, even though it is the counterparty that is in default and not us. To the extent that we are required to make such payments, our ability to do so will depend on our liquidity and capital resources at the time. In an insolvency of a defaulting counterparty, we will be an unsecured creditor in respect of any amount owed to us by the defaulting counterparty, except to the extent of the value of any collateral we have obtained from that counterparty.

The risks we would face in the event of a default by a counterparty to one of our derivative instruments might be eliminated or substantially mitigated if we were able to novate the relevant derivative contracts to a new counterparty following the default of our counterparty. While we anticipate that, in the event of the insolvency of one of our derivative counterparties, we would seek to effect such novations, no assurance can be given that we would obtain the necessary consents to do so or that we would be able to do so on terms or pricing that would be acceptable to us or that any such novation would not result in substantial costs to us. Furthermore, the underlying risks that are the subject of the relevant derivative contracts would no longer be effectively hedged due to the insolvency of our counterparty, unless and until we novate or replace the derivative contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

While we currently have no specific concerns about the creditworthiness of any counterparty for which we have material credit risk exposures, 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, financial condition and/or liquidity.

In light of the related party nature of our notes receivable from direct and indirect shareholders and the fact that these receivables will be extinguished in connection with the 2012 Reorganization, we have not considered these financial instruments in our credit risk assessments. For additional information regarding the 2012 Reorganization, see note 1.

Our maximum exposure to credit risk is represented by the carrying amounts of our financial assets, excluding notes receivable from direct and indirect shareholders, as discussed above. For information concerning these carrying amounts, see note 7.

Liquidity Risk

Liquidity risk is the risk that we will encounter difficulty in meeting our financial obligations. Kabel BW is a holding company, and its primary assets are cash and cash equivalents and investments in consolidated subsidiaries. As Kabel BW generally is able to access the financial assets of its operating subsidiary (KBW), we assess our sources and uses of liquidity on a consolidated basis.

Our sources of liquidity include (i) cash provided by our operations, (ii) our cash and cash equivalent balances (€26.2 million at December 31, 2011) and (iii) availability under the KBW Revolving Credit Facility (€100.0 million at December 31, 2011), as defined and described in note 12. In addition, from time to time, our sources of liquidity may include funding from our immediate parent company (and ultimately from Liberty Global and other Liberty Global subsidiaries) in the form of loans or contributions, as applicable.

Our sources of liquidity typically are used to fund our debt service requirements, capital expenditures and other liquidity requirements that may arise from time to time, including the transfer of any excess funds to our immediate parent company (and ultimately to Liberty Global and other Liberty Global subsidiaries, subject to the terms of the indentures governing the KBW Notes, as described in note 12), in the form of loans or distributions, as applicable.

Our most significant financial obligations are our debt obligations, as described in note 12. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash on hand, the cash provided from our operations, available borrowings under the KBW Revolving Credit Facility and, if needed, any loans or contributions from our immediate parent company or other Liberty Global subsidiaries will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements through December 31, 2012, although no assurance can be given that this will be the case. However, as our debt matures 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 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 markets we access and, accordingly, our future liquidity and financial position. 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.

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 Adjusted EBITDA of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional debt financing is limited by the leverage covenants contained in our and our immediate parent company's debt

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the KBW Revolving Credit 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. As we use the term, Adjusted EBITDA is defined as EBITDA before stock-based compensation, impairment, restructuring and other operating charges or credits and related-party fees and allocations, net.

We and Liberty Global use budgeting and cash flow forecasting tools to ensure that we will have sufficient resources to timely meet our liquidity requirements. We and Liberty Global also maintain a liquidity reserve to provide for unanticipated cash outflows.

The following table shows the timing of expected payments based on the contractually agreed upon terms for our financial liabilities as of December 31, 2011.

| _ | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
|------------------------|-------|----------------|----------------|----------------|----------------|------------------|-----------|
| | | | | in million | ıs | | |
| Debt principal€ | _ | € — | € — | € — | € — | € 1,605.8 | € 1,605.8 |
| Debt interest | 114.3 | 114.3 | 114.3 | 114.3 | 114.3 | 252.4 | 823.9 |
| Derivative liabilities | 4.9 | 3.7 | 2.0 | 0.4 | _ | _ | 11.0 |
| Accounts payable | 34.3 | _ | _ | _ | _ | _ | 34.3 |
| Accrued liabilities | 33.2 | | | | | | 33.2 |
| Total <u>€</u> | 186.7 | <u>€ 118.0</u> | <u>€ 116.3</u> | € 114.7 | € 114.3 | € 1,858.2 | € 2,508.2 |

Market Risk

Because we have certain debt that is denominated in United States (U.S.) dollars and other debt that has a floating interest rate, we are exposed to market risks relating to fluctuations in the foreign exchange rate between the U.S. dollar and the euro and changes in the EURIBOR. Each of these risks is discussed below.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the KBW Senior Secured Floating Rate Notes, as defined and described in note 12. In order to mitigate the interest rate risk associated with this debt, we have entered into interest rate swap contracts, as further described in note 6. These interest rate swaps fix the interest rate on this debt at approximately 6.85% during the terms of the underlying contracts. In this regard, we use judgment to determine the appropriate maturity dates of our interest rate derivative instruments, taking into account the relative costs and benefits of different maturity profiles in light of current and expected future market conditions, liquidity issues and other factors.

We also have exposure to interest rate risk with respect to any amounts we borrow under the KBW Revolving Credit Facility, as defined and described in note 12, which also bears interest at a variable rate.

With respect to our fixed rate debt, changes in interest rates will impact the fair value of the debt instrument but not our cash flows. If however, we were to refinance our fixed rate debt, we would be exposed to interest rate risk with respect to the debt we would incur with respect to any such refinancing. While we and Liberty Global typically strive to mitigate this risk by refinancing well before the debt matures, no assurance can be given that we would be able obtain new debt financing on terms that are as attractive as our existing debt. As we do not carry our debt at fair value, changes in the fair value of our debt typically would not impact our results of operations.

For purposes of demonstrating the sensitivity of (i) the interest expense on the KBW Senior Secured Floating Rate Notes and (ii) the fair value of the related interest rate swaps to changes in interest rates, we present the changes in these items that would result from a hypothetical instantaneous change in the 3-month EURIBOR of 50 basis points (0.50%) as of December 31, 2011, holding all other variables constant. This sensitivity analysis assumes that this hypothetical rate was in effect, and that the KBW Senior Secured Floating Rate Notes were outstanding, for

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

the entire year. This analysis is presented for illustrative purposes only. In practice, market rates rarely change in isolation and are likely to be interdependent.

The impacts of these hypothetical changes in interest rates for the year ended December 31, 2011 are as follows:

| | Increase of 0.50% | | _ | ecrease f 0.50% |
|--|-------------------|-------|---|--------------------|
| | in millions | | | |
| Decrease (increase) in interest expense | € | (2.1) | € | 2.1 |
| Increase (decrease) in fair value of interest rate swaps | | 3.6 | | (3.6) |
| Increase (decrease) in earnings before income taxes | € | 1.5 | € | (1.5) |

Foreign Currency Risk

Our reporting currency is the euro. We historically have not had, and do not expect in the future to have, material amounts of cash inflows or outflows that are denominated in currencies other than the euro, with the exception of interest and principal payments on the KBW Dollar Senior Secured Notes, as defined and described in note 12. Accordingly, these interest and principal payments represent our only material foreign currency risk. In accordance with our and Liberty Global's risk management policies, we have entered into a cross-currency swap to synthetically convert the interest and principal payments due under the KBW Dollar Senior Secured Notes into euros throughout the term of such notes.

For purposes of demonstrating the sensitivity of (i) the outstanding principal and accrued interest associated with the KBW Dollar Senior Secured Notes and (ii) the fair value of the related cross-currency swaps to changes in foreign currency exchange rates, we present the changes in these items that would result from a hypothetical instantaneous change in the euro to U.S. dollar foreign currency exchange rate of 10% as of December 31, 2011, holding all other variables constant. This sensitivity analysis assumes that the KBW Dollar Senior Secured Notes and the related cross-currency swaps were outstanding for the entire year. This analysis is presented for illustrative purposes only. In practice, market rates rarely change in isolation and are likely to be interdependent. The impacts of these hypothetical changes in foreign exchange rates for the year ended December 31, 2011 are as follows:

| | | Value of e | | |
|--|---|----------------------------|----------|----------------|
| | | 10% increase in mill | de | 10% ecrease |
| | · | in n | nillions | 5 |
| Decrease (increase) in foreign currency transaction losses | € | 39.4 | € | (39.4) |
| Decrease (increase) in loss associated with change in fair value of cross-currency swaps | | (52.8) | | 52.8 |
| Increase (decrease) in earnings before income taxes | € | (13.4) | € | 13.4 |

Capital Management

We manage our capital to ensure that we will be able to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, Liberty Global may determine to cause our company to return capital to our shareholder or make loans to our shareholder or other Liberty Global subsidiaries. In addition, Liberty Global may determine to cause one or more of its subsidiaries to provide funding to our company in the form of loans or capital contributions, as applicable.

We monitor our debt capital on the basis of our leverage covenants. As further discussed above, 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 Adjusted EBITDA of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. For additional information regarding our debt, see note 12.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(6) Derivative Instruments

We use interest rate swaps and cross-currency swaps for hedging interest rate and foreign currency risks, respectively.

Hedge accounting was applied from September 2009 to March 2011 to the interest rate swap contracts that hedged the interest rate risk with respect to our variable rate bank debt. In connection with the refinancing of this bank debt in March 2011, (i) these interest rate swaps were settled prior to maturity for \in 16.3 million in cash, (ii) the remaining unrealized losses included in accumulated other comprehensive losses related to these swaps of \in 9.8 million were reclassified to realized and unrealized gains (losses) on derivative instruments in our consolidated statement of operations and (iii) we entered into new cross-currency swap and interest rate swap agreements in order to manage the U.S. dollar currency risks and the variable interest rate risks, respectively, associated with the new debt.

Hedge accounting is not applied to the new interest rate and cross-currency swaps.

The following table provides details of the fair values of our derivative instrument assets and liabilities:

| | Dec | cember 31, 2011 | | December 31, 2010 | | | | |
|---|-------------|-----------------|---------------|-------------------|----------------|---------------|--|--|
| | Current (a) | Noncurrent (a) | <u>Total</u> | Current (a) | Noncurrent (a) | <u>Total</u> | | |
| | | | in mi | llions | | | | |
| Assets: Cross-currency derivative contracts (b) | € 0.5 | € 18.1 | <u>€ 18.6</u> | € — | € — | € — | | |
| Liabilities: Interest rate derivative contracts (b) | € 6.3 | <u>€ 7.3</u> | <u>€ 13.6</u> | € — | <u>€ 21.3</u> | <u>€ 21.3</u> | | |

⁽a) Our current derivative assets and liabilities are included in other current assets and other current liabilities, respectively, and our noncurrent derivative assets are included in other noncurrent assets, in our consolidated balance sheets.

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

| | Year ended December 31, | | | | | | |
|-------------------------------------|-------------------------|----------------|---|------------------|---|-------------|--|
| | | 2011 | | 2010 millions | | 2009 | |
| Cross-currency derivative contracts | | 17.5 (27.2) | € | _ | € | — (10.1) | |
| Total | € | (9.7) | € | | € | (10.1) | |

⁽b) As of December 31, 2011, the fair values of our cross-currency derivative assets and our interest rate derivative liabilities have each been reduced by credit risk valuation adjustments of €2.2 million and €0.5 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. For further information concerning our fair value measurements, see note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

The net cash paid or received related to our derivative instruments is classified as an operating, investing or financing activity in our consolidated statements of cash flows based on the objective of the derivative instrument and the classification of the applicable underlying cash flows. For derivative contracts that are terminated prior to maturity, the cash paid or received upon termination that relates to future periods is classified as a financing activity. The classifications of our derivative cash outflows are as follows:

| | Year ended December 31, | | | | | | |
|----------------------|-------------------------|--------|---|---------------------|---|--------|--|
| | 2011 | | | 2010 in millions | | 2009 | |
| Operating activities | € | (9.1) | € | (20.2) | € | (12.0) | |
| Financing activities | | (16.3) | | | | | |
| Total | € | (25.4) | € | (20.2) | € | (12.0) | |

Cross-currency and Interest Rate Derivative Contracts

Cross-currency Swaps:

The terms of our outstanding cross-currency swap contracts at December 31, 2011 are as follows:

| Maturity date | Notional amount due from counterparty | Notional amount due to counterparty | Interest rate due from counterparty | Interest rate due to counterparty |
|----------------|---------------------------------------|-------------------------------------|---|---|
| | in mi | llions | | |
| March 15, 2019 | .\$ 500.0 | € 355.4 | 7.5% | 7.975% |

Interest Rate Swaps:

The terms of our outstanding interest rate swap contracts at December 31, 2011 are as follows:

| Maturity date | Notional amount in millions | Interest rate due from counterparty | Interest rate due to counterparty |
|----------------|-----------------------------|---|-----------------------------------|
| March 15, 2013 | € 140.0 | 3 month EURIBOR | 2.596% |
| March 15, 2014 | € 140.0 | 3 month EURIBOR | 2.596% |
| March 15, 2015 | € 140.0 | 3 month EURIBOR | 2.596% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(7) Fair Value Measurements

Our derivative instruments are the only financial instruments that were accounted for at fair value as of December 31, 2011. The reported fair values of our derivative assets and liabilities as of December 31, 2011 likely will not represent the value that will be realized upon their ultimate settlement or disposition. In this regard, we expect that the values realized 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.

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

All of our Level 2 inputs (interest rate futures, swap rates and certain of the inputs for our weighted average cost of capital calculations) and certain of our Level 3 inputs (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 market 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.

As further described in note 6, we have entered into 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 applicable interest rate futures and swap rates, 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 6.

We do not have any financial instruments that fall under Level 1 or Level 3 of the fair value hierarchy.

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 our company, customer relationship intangible assets, property and equipment and the implied value of goodwill. The valuation of our company is based at least in part on discounted cash flow analyses. With the exception of certain inputs in our weighted average cost of capital calculations that are derived from pricing services, the inputs used in our discounted cash flow analyses, such as forecasts of future cash flows, are based on our assumptions. 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 our company 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. We perform nonrecurring fair value measurements in connection with our goodwill impairment assessments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated balance sheets, are as follows:

| | | | er 31, 2011 | | er 31, 2010 | | |
|---|--------------|---------------------------|------------------|---------------------------|------------------|--|--|
| | Category (a) | Carrying <u>amount</u> | Fair value | Carrying <u>amount</u> | Fair value | | |
| | | | in m | illions | | | |
| Assets carried at fair value: | | | | | | | |
| Derivative instruments without | | | | | | | |
| designated hedge relationship | . I | <u>€ 18.6</u> | <u>€ 18.6</u> | <u>€</u> | <u>€</u> — | | |
| Assets carried at cost or amortized cost: | | | | | | | |
| Cash and cash equivalents Trade receivables and unbilled | Ш | € 26.2 | € 26.2 | € 101.0 | € 101.0 | | |
| revenue | Ш | 30.8 | 30.8 | 26.2 | 26.2 | | |
| Other current financial assets | П | 2.0 | 2.0 | 4.3 | 4.3 | | |
| Notes receivable from direct and | | | | | | | |
| indirect shareholders (b) | Ш | 570.1 | 570.1 | 2.0 | 2.0 | | |
| Other noncurrent financial assets | | 0.8 | 0.8 | 0.8 | 0.8 | | |
| Total assets carried at cost or | | | | | | | |
| amortized cost | | <u>€ 629.9</u> | <u>€ 629.9</u> | <u>€ 134.3</u> | <u>€ 134.3</u> | | |
| Liabilities carried at fair value: | | | | | | | |
| Derivative instruments with | | | | | | | |
| designated hedge relationship | IV | € — | € — | € 21.3 | € 21.3 | | |
| Derivative instruments without | | | | | | | |
| designated hedge relationship | | <u> 13.6</u> | <u> 13.6</u> | | | | |
| Total liabilities carried at fair value | | <u>€ 13.6</u> | <u>€ 13.6</u> | <u>€ 21.3</u> | <u>€ 21.3</u> | | |
| Liabilities carried at cost or amortized cost: | | | | | | | |
| Accounts payable | 111 | € 34.3 | € 34.3 | € 39.2 | € 39.2 | | |
| Accrued liabilities | | 33.2 | 33.2 | 38.1 | 38.1 | | |
| Debt obligation, accrued interest | | 33.2 | 33.2 | 30.1 | 30.1 | | |
| and transaction costs | | 1,590.5 | 1,667.7 | 1,163.3 | 1,176.4 | | |
| Other | | .,o,o.o | — | 0.2 | 0.2 | | |
| Total liabilities carried at cost or | - | | | | | | |
| amortized cost | | <u>€ 1,658.0</u> | <u>€ 1,735.2</u> | <u>€ 1,240.8</u> | <u>€ 1,253.9</u> | | |

⁽a) Pursuant to IAS 39, category I refers to financial assets and liabilities held for trading, category II refers to loans and receivables, category III refers to financial liabilities measured at amortized cost and category IV refers to derivatives designated as hedging instruments. Category V refers to finance leases outside the scope of IAS 39.

⁽b) Includes accrued interest and discount.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Pre-tax amounts recognized in our consolidated statements of operations during 2011, 2010 and 2009 related to our financial instruments are as follows:

| | Interest income | Interest expense | Other statement of operations effects (a) | Impact on earnings before income taxes |
|---|------------------------------|-------------------------------|---|--|
| | | in ı | millions | |
| Year ended December 31, 2011: Derivative assets carried at fair value through our consolidated statement of operations | | € — | € 17.5 (4.8) | € 17.5 24.7 |
| Derivative liabilities carried at fair value through our consolidated statement of operations | | _ | (17.4) | (17.4) |
| comprehensive earnings | <u></u> <u>€ 29.5</u> | (2.9) (102.4) € (105.3) | (9.8) (42.9) € (57.4) | (12.7) (145.3) € (133.2) |
| Year ended December 31, 2010: Assets carried at cost or amortized cost (b) Derivative liabilities carried at fair value through other | € 0.7 | € – | € (2.3) | € (1.6) |
| comprehensive earnings Liabilities carried at cost or amortized cost | | (20.0) (56.5) € (76.5) | | (20.0) (56.5) € (78.1) |
| Year ended December 31, 2009: Assets carried at cost or amortized cost (b) Derivative liabilities carried at fair value through our | € 0.5 | € — | € (2.6) | € (2.1) |
| consolidated statement of operations Derivative liabilities carried at fair value through other | _ | _ | (10.1) | (10.1) |
| comprehensive earnings | | (6.6) (66.0) € (72.6) | | (6.6) (66.0) € (84.8) |

⁽a) Except as noted in (b) below, amounts are included in net financial expense in our consolidated statements of operations.

⁽b) The "Other statement of operations effects" amount represents the provision for impairment of trade receivables and is included in OpEx in our consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(8) Long-lived Assets

Property and Equipment, Net

Changes during 2011 and 2010 in the carrying amounts of our property and equipment, net, are set forth below:

| | | Cable tribution ystems | equ <u>buildin</u> | upport ipment, igs and land millions | | Total |
|-------------------------------------|----------|---|------------------------------------|---|---|---|
| Cost: | | | •••• | | | |
| January 1, 2011 | € | 984.7 | € | 34.5 | € | 1,019.2 |
| Additions | Ü | 104.4 | · · | 5.6 | Ü | 110.0 |
| Disposals and other | | (2.0) | | (0.2) | | (2.2) |
| December 31, 2011 | | 1,087.1 | € | 39.9 | € | 1,127.0 |
| Accumulated depreciation: | | | | | | |
| January 1, 2011 | £ | 267.9 | € | 17.0 | € | 284.9 |
| Depreciation | C | 94.0 | C | 5.2 | C | 99.2 |
| Disposals | | (1.2) | | (0.4) | | (1.6) |
| December 31, 2011 | | 360.7 | € | 21.8 | € | 382.5 |
| Determined 31, 2011 | | 300.7 | | 21.0 | | 302.3 |
| Property and equipment, net: | | | | | | |
| December 31, 2011 | € | 726.4 | € | 18.1 | € | 744.5 |
| | | | | | | |
| | dis | Cable tribution ystems | equ | upport ipment, ags and land | | Total |
| | dis | tribution | equ <u>buildin</u> | ipment, | | Total |
| Cost: | dis | tribution | equ <u>buildin</u> | ipment, igs and land | | Total |
| January 1, 2010 | dis s | tribution ystems 874.7 | equ <u>buildin</u> | ipment, igs and land | € | 905.6 |
| January 1, 2010 Acquisitions (a) | dis s | stribution ystems 874.7 3.8 | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 | € | 905.6 3.8 |
| January 1, 2010 | dis s | 874.7 3.8 106.6 | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 — 4.7 | € | 905.6 3.8 111.3 |
| January 1, 2010 | dis s | 874.7 3.8 106.6 (0.4) | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 4.7 (1.1) | | 905.6 3.8 111.3 (1.5) |
| January 1, 2010 | dis s | 874.7 3.8 106.6 | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 — 4.7 | € | 905.6 3.8 111.3 |
| January 1, 2010 | dis s | 874.7 3.8 106.6 (0.4) | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 4.7 (1.1) | | 905.6 3.8 111.3 (1.5) |
| January 1, 2010 | dis s | 874.7 3.8 106.6 (0.4) | equ <u>buildin</u> in r | ipment, igs and land millions 30.9 4.7 (1.1) | | 905.6 3.8 111.3 (1.5) |
| January 1, 2010 | dis s € | 874.7 3.8 106.6 (0.4) 984.7 | equ <u>buildin</u> in r € | 30.9 | € | 905.6 3.8 111.3 (1.5) 1,019.2 |
| January 1, 2010 | dis s | 874.7 3.8 106.6 (0.4) 984.7 | equ <u>buildin</u> in r € | ipment, gs and land millions 30.9 4.7 (1.1) 34.5 | € | 905.6 3.8 111.3 (1.5) 1,019.2 |
| January 1, 2010 | dis s € | 874.7 3.8 106.6 (0.4) 984.7 | equ <u>buildin</u> in r € | 30.9 4.7 (1.1) 34.5 | € | 905.6 3.8 111.3 (1.5) 1,019.2 |
| January 1, 2010 | dis s € | 874.7 3.8 106.6 (0.4) 984.7 184.7 84.6 (1.4) | equ <u>buildin</u> in r € | 30.9 4.7 (1.1) 34.5 | € | 905.6 3.8 111.3 (1.5) 1,019.2 198.1 89.3 (2.5) |
| January 1, 2010 | dis s € | 874.7 3.8 106.6 (0.4) 984.7 184.7 84.6 (1.4) | equ <u>buildin</u> in r € | 30.9 4.7 (1.1) 34.5 | € | 905.6 3.8 111.3 (1.5) 1,019.2 198.1 89.3 (2.5) |

⁽a) Includes assets of €3.0 million acquired from another cable provider and a net increase of €0.8 million resulting from the full consolidation of a former equity affiliate upon acquisition of the remaining 50% ownership interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Goodwill

We performed our annual review for impairment as of November 30, 2011 and, based primarily on the enterprise value implied by the LGI/KBW Transaction, we concluded that the full amount of our goodwill was recoverable. For additional information concerning the LGI/KBW Transaction, see note 17.

There were no changes in the carrying amount of our goodwill during 2011. Changes in the carrying amount of our goodwill during 2010 are set forth below (in millions):

| January 1 | € | 837.1 |
|--------------|---|-------|
| Acquisitions | | 2.9 |
| December 31 | € | 840.0 |

Intangible Assets, net

Changes during 2011 and 2010 in the carrying amount of our intangible assets, net, are set forth below:

| | Finite-lived | | | | | | Indefinite- lived | | | |
|---------------------------|------------------------|-------|-----|-----------------------------|-----------|---------------|----------------------|----------|---|--------------|
| | Customer relationships | | acq | scriber uisition osts | Other (a) | | Trade name | | Т | otal |
| | | | | | in m | nillions | | | | |
| Cost: | | | | | | | | | | |
| January 1, 2011 | € | 304.0 | € | 30.4 | € | 62.2 | € | 20.7 | € | 417.3 |
| Additions | | _ | | 16.0 | | 11.6 | | _ | | 27.6 |
| Reclassifications (b) | | _ | | _ | | 20.7 | | (20.7) | | _ |
| Disposals and other | | | | (14.9) | | <u>(7.5</u>) | | | - | (22.4) |
| December 31, 2011 | € | 304.0 | € | <u>31.5</u> | € | 87.0 | € | | € | 422.5 |
| Accumulated amortization: | | | | | | | | | | |
| January 1, 2011 | € | 99.2 | € | 20.5 | € | 28.4 | € | _ | € | 148.1 |
| Amortization | | 23.4 | | 15.3 | | 9.3 | | _ | | 48.0 |
| Impairments (c) | | _ | | _ | | 4.7 | | _ | | 4.7 |
| Disposals | | | | (14.9) | | <u>(7.4</u>) | | | | (22.3) |
| December 31, 2011 | € | 122.6 | € | 20.9 | € | 35.0 | € | <u> </u> | € | <u>178.5</u> |
| Intangible assets, net: | | | | | | | | | | |
| December 31, 2011 | € | 181.4 | € | 10.6 | € | 52.0 | € | | € | 244.0 |

⁽a) Primarily includes computer software costs and, subsequent to the LGI/KBW Transaction, trade name costs.

⁽b) Represents the reclassification of trade name from indefinite-lived intangible asset to finite-lived in connection with the LGI/KBW Transaction.

⁽c) The development of a customer billing system was discontinued in connection with the LGI/KBW Transaction and, as a result, an impairment charge of €4.7 million was recognized. The related impairment test considered the value in use as fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

| | Finite-lived | | | | | | | efinite- ved | | |
|--|--------------|--|---|---------------------------------|-----------|---------------------------------|------------|-----------------|---|---|
| | | Customer relationships | | scriber usition osts | Other (a) | | Trade name | | | Total |
| | | | | | in n | nillions | | | | |
| Cost: January 1, 2010 Additions Acquisitions (b) | | 292.4 — 11.6 | € | 23.8 17.7 — | € | 49.1 13.8 — | € | 20.7 — — | € | 386.0 31.5 11.6 |
| Disposals and other December 31, 2010 | € | 304.0 | € | (11.1) 30.4 | € | (0.7) 62.2 | € | 20.7 | € | (11.8) 417.3 |
| Accumulated amortization: January 1, 2010 Amortization Impairments (c) Disposals and other December 31, 2010 | € | 77.1 22.8 — (0.7) ———————————————————————————————————— | € | 13.3 18.4 — (11.2) | € | 12.8 5.9 9.7 — 28.4 | € | | € | 103.2 47.1 9.7 (11.9) 148.1 |
| Intangible assets, net: December 31, 2010 | € | 204.8 | € | 9.9 | € | 33.8 | € | 20.7 | € | 269.2 |

⁽a) Primarily includes computer software costs.

For information concerning pledged assets, see note 12.

(9) Trade receivables and unbilled revenue

The details of our trade receivables and unbilled revenue are set forth below:

| | | Dece | mber 3 | 31, |
|---|---|---------------|---------|---------------|
| | | 2011 | | 2010 |
| | | in m | illions | |
| Trade receivables, gross | | 17.5 (5.3) | € | 15.6 (2.0) |
| Trade receivables, net | | 12.2 | | 13.6 |
| Unbilled revenue | _ | <u> 18.6</u> | | 12.6 |
| Trade receivables and unbilled revenue, net | | 30.8 | € | 26.2 |
| Noncurrent unbilled revenue (a) | | 1.1 | € | 2.0 |
| Current trade receivables and unbilled revenue, net | € | 29.7 | € | 24.2 |

⁽a) Our noncurrent unbilled revenue primarily results from revenue accrued for free and discounted services and other customer incentives during promotional periods and are included in other noncurrent assets in our consolidated balance sheets.

⁽b) Includes customer relationships valued at €9.6 million acquired from another cable provider and a net increase of €2.0 million resulting from the full consolidation of a former equity affiliate upon acquisition of the remaining 50% ownership interest.

⁽c) The development of a customer care system was discontinued in 2010, and as a result, an impairment of €9.7 million was recognized. This impairment test considered the value in use as fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

The detailed aging of current trade receivables and related impairment amounts as of December 31, 2011 and 2010 is set forth below:

| | December 31, 2011 | | | | | Decembe | r 31, 2010 | | |
|---------------|-------------------|------|---|------------------|---------|----------------------|------------|------------------|--|
| | | | | ance for airment | | ss trade eivables | | ance for airment | |
| | | | | in m | illions | | | | |
| Days Past Due | | | | | | | | | |
| Current | € | 7.0 | € | 0.1 | € | 6.4 | € | _ | |
| 1 – 30 | | 1.4 | | 0.2 | | 2.6 | | _ | |
| 31 – 60 | | 1.8 | | 0.3 | | 2.5 | | _ | |
| 61 - 90 | | 1.3 | | 0.8 | | 1.0 | | _ | |
| Over 90 | | 6.0 | | 3.9 | | 3.1 | | 2.0 | |
| Total | € | 17.5 | € | 5.3 | € | 15.6 | € | 2.0 | |

At December 31, 2011 and 2010, a total of €5.3 million and €7.2 million, respectively, was past due but not impaired. With respect to these trade receivables, there are no indications that the subscribers will not meet their payment obligations.

A provision for impairment of trade receivables is established based upon objective evidence that we will not be able to collect the amounts. Historical payment experience, as well as all known collection issues, are considered when evaluating receivables for impairment.

The following table shows the development of the allowance for impairment of trade receivables:

| | 2 | 011 | 2 | 010 |
|--|---|-------|--------|-------|
| | | in m | llions | |
| Allowance at January 1 | € | 2.0 | € | 2.0 |
| Provisions for impairment of receivables | | 4.8 | | 2.3 |
| Write-offs of receivables | | (1.5) | | (2.3) |
| Allowance at December 31 | € | 5.3 | € | 2.0 |

When a trade receivable is uncollectible, it is written off against the allowance account. The provision for impairment of trade receivables is included in operating expenses in our consolidated statement of operations. We do not hold any trade receivables in a foreign currency.

(10) Accrued liabilities

The details of our accrued liabilities are set forth as follows:

| | | Decen | nber 3 | 1, |
|---|---|-------|---------|------|
| | | 2011 | | 2010 |
| | | in m | illions | |
| Accrued expenses and capital expenditures (other than payroll related accruals) | € | 18.7 | € | 20.7 |
| Accrued payroll related compensation and benefits | | 8.7 | | 6.0 |
| Current provisions (note 11) | | 4.7 | | 11.4 |
| Other | | 1.1 | | |
| Accrued liabilities | € | 33.2 | € | 38.1 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(11) Provisions

The details of our provisions are set forth as follows:

| | | Decem | ber 31 | l <u>, </u> |
|-----------------------------|----------|-------------|----------|---|
| | | 2011 | | 2010 |
| | | in m | illions | |
| Net pension liability | € | 8.8 | € | 8.1 |
| Asset retirement obligation | | 1.7 | | 1.7 |
| Other (a) | | 4.7 | | 11.4 |
| Total provisions | € | 15.2 | € | 21.2 |
| Current portion | <u>€</u> | 4.7 10.5 | <u>€</u> | 11.4 9.8 |

⁽a) Consists primarily of accruals for various contingencies included in accrued liabilities in our consolidated balance sheets.

The following table shows the development of provisions:

| | Not | noncion | | Asset rement | | | | |
|-------------------|--------------------------|---------|---|-----------------|----------|-------|---|-------|
| | Net pension liability | | | igation | (| Other | | Total |
| | | | | in m | nillions | | | _ |
| January 1, 2011 | € | 8.1 | € | 1.7 | € | 11.4 | € | 21.2 |
| Additions | | 0.7 | | _ | | 1.0 | | 1.7 |
| Releases | | _ | | _ | | (1.7) | | (1.7) |
| Cash payments | | | | | | (6.0) | | (6.0) |
| December 31, 2011 | € | 8.8 | € | 1.7 | € | 4.7 | € | 15.2 |
| January 1, 2010 | € | 7.4 | € | 1.5 | € | 11.1 | € | 20.0 |
| Additions | | 0.7 | | 0.2 | | 3.0 | | 3.9 |
| Releases | | _ | | _ | | (2.6) | | (2.6) |
| Cash payments | | | | | | (0.1) | | (0.1) |
| December 31, 2010 | € | 8.1 | € | 1.7 | € | 11.4 | € | 21.2 |

Our expenses related to (i) our contributions to the German statutory pension system, (ii) our defined benefit pension plan and (iii) our defined contribution plan aggregated €4.0 million, €3.9 million and €3.0 million during 2011, 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

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(12) Debt

The euro equivalents of the components of our consolidated debt are as follows:

| | | | | | | | Estir | nat | ed | | | | |
|--------------------------------------|----------|------|----------------|------|----------|-----|---------|------|------------------|------------|---------|------|----------------|
| <u>.</u> | D | ecer | <u>mber 31</u> | , 20 | 011 | | fair va | alue | (b) | _ | Carryir | ng v | alue |
| | Interest | Bor | rowing | | Euro | | Decem | bei | ¹ 31, | | Decem | nber | 31, |
| | rate (a) | cu | rrency | ec | uivalent | | 2011 | _ | 2010 | _ | 2011 | | 2010 |
| | | | | | | | in | mil | lions | | | | |
| Subsidiary debt: | | | | | | | | | | | | | |
| • | | | | | | | | | | | | | |
| KBW Euro Senior Secured Notes | 7.50% | € | 800.0 | € | 800.0 | € | 821.4 | € | _ | € | 800.0 | € | _ |
| KBW Senior Secured Floating Rate | | | | | | | | | | | | | |
| Notes | 5.68% | € | 420.0 | | 420.0 | | 421.1 | | _ | | 420.0 | | |
| KBW Dollar Senior Secured Notes | | \$ | 500.0 | | 385.8 | | 398.1 | | _ | | 385.8 | | |
| KBW Revolving Credit Facility (c) | | - | 100.0 | | 100.0 | | 370.1 | | | | 303.0 | | |
| - | | C | 100.0 | | 100.0 | | _ | | 1 174 4 | | _ | | 1 174 4 |
| Variable Rate Bank Facilities (d) | | | _ | _ | | | | | <u>1,174.4</u> | _ | | - | <u>1,174.4</u> |
| Total debt before transaction costs, | | | | | | | | | | | | | |
| accrued interest and other (e) | 7.02% | | | € | 1,705.8 | € ′ | 1,640.6 | € | <u>1,174.4</u> | | 1,605.8 | | 1,174.4 |
| Transaction costs | | | | | | | | | | | (42.4) | | (13.3) |
| Accrued interest | | | | | | | | | | | 27.1 | | 2.0 |
| Other | | | | | | | | | | | _ | | 0.2 |
| Total debt | | | | | | | | | | | 1,590.5 | | 1,163.3 |
| Current maturities | | | | | | | | | | | (27.1) | | (122.1) |
| Noncurrent debt | | | | | | | | | | | 1,563.4 | € | 1.041.2 |
| TOTOGRAPOTE GODE | | | | | | | | | | · <u>~</u> | 1,000.1 | | 1,011.6 |

- (a) Represents the stated interest rate of the debt instrument as of December 31, 2011 and does not include the impact of our interest rate derivative agreements, deferred financing costs or commitment fees, all of which affect our overall cost of borrowing. Including the effects of derivative instruments and commitment fees, but excluding the impact of financing costs, our estimated weighted average interest rate on our aggregate indebtedness was approximately 7.4% at December 31, 2011. The interest rate shown for the KBW Euro Senior Secured Floating Rate Notes (as defined below) is based on the stated rate of 3 month EURIBOR plus a margin of 4.25% per annum. For information concerning our derivative instruments, see note 6.
- (b) The estimated fair values of our debt instruments were determined using the average of the 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 market interest rates, estimated credit spreads and other relevant factors.
- (c) The interest rate shown for the KBW Revolving Credit Facility (as defined below) is based on the stated rate of EURIBOR plus a margin of 3.75% per annum. At December 31, 2011, the full amount of the KBW Revolving Credit Facility was available to be drawn. A commitment fee of 1.5% per annum is payable on available but undrawn amounts under the KBW Revolving Credit Facility.
- (d) The proceeds from the KBW Senior Secured Notes (as defined and described below) were used to repay all outstanding indebtedness and related accrued interest of these debt instruments. The weighted average interest rate on the aggregate variable rate bank facilities was 4.7% as of December 31, 2010 and is based on EURIBOR plus margins ranging from 2.00% to 9.25%.
- (e) The interest rate shown in this line item represents the weighted average stated interest rate of all of our outstanding debt instruments as of December 31, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

2011 Refinancing

On March 31, 2011, Kabel BW and Kabel Partnership issued: (i) €800.0 million principal amount of 7.5% Senior Secured Notes (the KBW Euro Senior Secured Notes), (ii) \$500.0 million (€385.8 million) principal amount of 7.5% Senior Secured Notes (the KBW Dollar Senior Secured Notes and together with the KBW Euro Senior Secured Notes, the KBW Senior Secured Fixed Rate Notes) and (iii) €420.0 million principal amount of Senior Secured Floating Rate Notes and together with the KBW Senior Secured Fixed Rate Notes, the KBW Senior Secured Notes). The KBW Senior Secured Fixed Rate Notes mature on March 15, 2019 and the KBW Senior Secured Floating Rate Notes mature on March 15, 2018. Interest on the KBW Senior Secured Floating Rate Notes is payable semi-annually on March 15 and September 15. Interest on the KBW Senior Secured Floating Rate Notes is payable quarterly on March 15, June 15, September 15 and December 15.

The net proceeds from the issuance of the KBW Senior Secured Notes of €1,529.8 million, after deducting issuance costs of €45.6 million, were primarily used to repay bank loans of €1,176.3 million (including €47.0 million of accrued interest related to a Mezzanine Facility Agreement, of which €45.1 million was accrued in periods prior to January 1, 2011) and to fund a loan by Kabel BW to KBW Musketeer (the KBW Musketeer Loan Facility). For additional information regarding the KBW Musketeer Loan Facility, see note 16. In connection with the refinancing of our bank debt, (i) we recognized a loss on extinguishment of debt of €12.5 million, representing the write-off of deferred financing costs, and (ii) we paid €16.3 million to settle the interest rate swap contracts associated with the bank loans. In our consolidated cash flow statement for the year ended December 31, 2011, (a) the full amount of the interest paid on the Mezzanine Facility Agreement was included in cash provided by operating activities and (b) the cash paid to settle our interest rate swap contracts was included in cash provided by financing activities. For additional information regarding our derivative instruments, see note 6.

On March 31, 2011, concurrent with the issuance of the KBW Senior Secured Notes, KBW Musketeer issued €680.0 million principal amount of 9.5% Senior Notes (the KBW Senior Notes and, together with the KBW Senior Secured Notes, the KBW Notes). The KBW Senior Notes mature on March 15, 2021 and interest is payable semi-annually on March 15 and September 15 of each year. KBW Musketeer used the combined net proceeds from the issuance of the KBW Senior Notes and from the KBW Musketeer Loan Facility to fund the partial repayment of its €1.1 billion note payable to Oskar Rakso.

At December 31, 2011, the KBW Senior Notes were an obligation of KBW Musketeer and were not a direct obligation of Kabel BW or of any of Kabel BW's subsidiaries. Accordingly, the KBW Senior Notes are not included in our consolidated balance sheet. However, as both the KBW Senior Notes and the KBW Senior Secured Notes are part of the same credit group, we include a description of certain of the terms of the KBW Senior Notes below.

KBW Senior Secured Notes and KBW Senior Notes

The KBW Senior Secured Notes and the KBW Senior Notes have been issued pursuant to two indentures (the KBW Senior Secured Indenture and the KBW Senior Indenture, respectively) each dated March 31, 2011. Effective August 31, 2011, and following the completion of a post-issuance reorganization by KBW Musketeer and its subsidiaries that was effective April 30, 2011, (i) Kabel Partnership was collapsed into KBW and KBW assumed all of the obligations of Kabel Partnership under the KBW Senior Secured Notes and the KBW Revolving Credit Facility (as defined below), (ii) KBW assumed the obligations of Kabel BW as issuer of the KBW Senior Secured Notes pursuant to an accession agreement dated August 31, 2011 and Kabel BW was thereby released from its obligations as an issuer of the KBW Senior Secured Notes, (iii) Kabel BW provided a guarantee of the KBW Senior Secured Notes pursuant to a supplemental indenture dated August 31, 2011 and (iv) KBW assumed all rights and obligations of Kabel BW as lender of the KBW Musketeer Loan Facility.

In connection with the 2012 Reorganization described in note 1, effective March 27, 2012, (i) the obligations of KBW Musketeer under the KBW Senior Notes were assumed by UPC Germany HC1 in exchange for an intercompany note payable to UPC Germany HC1, (ii) UPC Germany HC1 became the issuer under the KBW Senior Notes, (iii) KBW Musketeer was released from its obligations as issuer under the KBW Senior Notes and (iv) UPC Germany HC1 became a guarantor under the KBW Senior Secured Notes. The following descriptions of the KBW Notes and the KBW Revolving Credit Facility (as defined below) represent the terms that exist after giving effect to these changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

The KBW Senior Secured Notes are secured by a first ranking security interest over the shares of KBW, substantially all of the assets of KBW and Kabel GP and certain other asset security of UPC Germany HC1, and are guaranteed on a senior basis by UPC Germany HC1 and Kabel GP. The KBW Senior Notes are secured by a first ranking security interest in the shares of UPC Germany HC1 and a second priority security interest in the shares of KBW and certain other asset security of UPC Germany HC1, and are guaranteed on a senior subordinated basis by KBW and Kabel GP.

The KBW Senior Secured Notes are senior obligations of KBW that rank equally with all of the existing and future senior debt of KBW and are senior to all existing and future subordinated debt of KBW. The KBW Senior Notes are senior obligations of UPC Germany HC1 that rank equally with all existing and future senior debt of UPC Germany HC1 and are senior to all existing and future subordinated debt of UPC Germany HC1.

The KBW Notes provide that any failure to pay principal prior to expiration of any applicable grace period, or any acceleration with respect to other indebtedness of €25 million or more in the aggregate of KBW or UPC Germany HC1 (as applicable) or any of the Restricted Subsidiaries (as defined in the applicable indenture) is an event of default under the KBW Notes.

The KBW Notes contain an incurrence-based Consolidated Leverage Ratio test, as defined in the applicable indenture.

The KBW Senior Secured Fixed Rate Notes are non-callable until March 15, 2015 and the KBW Senior Secured Floating Rate Notes are non-callable until March 15, 2012. The KBW Senior Notes are non-callable until March 15, 2016. At any time prior to March 15, 2015, in the case of the KBW Senior Secured Fixed Rate Notes or March 15, 2016, in the case of the KBW Senior Notes, KBW and UPC Germany HC1 (as applicable), may redeem some or all of the KBW Senior Secured Fixed Rate Notes and KBW Senior Notes (as applicable), by paying a "make-whole" premium, which is the present value of all remaining scheduled interest payments using the discount rate (as specified in the KBW Senior Secured Indenture and KBW Senior Indenture, as applicable) as of the redemption date plus 50 basis points.

During the period from March 31, 2012 through March 31, 2014, each of KBW and UPC Germany HC1 has the option, following completion of a UPC Exchange Transaction or a Unitymedia Exchange Transaction (in each case, as defined below), as the case may be, to redeem all but not less than all, of the KBW Notes issued by KBW or UPC Germany HC1, as applicable. The redemption price in such case (expressed as a percentage of the principal amount thereof) would be 101% (if such redemption is on or before March 31, 2013) or 102% (if such redemption is after March 31, 2013). A UPC Exchange Transaction means an exchange offer by UPC Broadband Holding B.V., UPCB Finance IV Limited or UPC Holding B.V. (all of which are subsidiaries of Liberty Global), as applicable, pursuant to which one or more series of UPC Qualified Notes (as defined in the indentures for the KBW Notes) issued by UPC Broadband Holding B.V., UPCB Finance IV Limited or UPC Holding B.V., as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of the applicable KBW Notes to participate in the exchange offer), offered in exchange for KBW Notes. A Unitymedia Exchange Transaction means an exchange offer by Unitymedia Hessen GmbH & Co. KG (Unitymedia Hessen) and Unitymedia NRW GmbH (Unitymedia NRW), as co-issuers, or Unitymedia GmbH (Unitymedia), as applicable, pursuant to which one or more series of Unitymedia Qualified Notes (as defined in the indentures for the KBW Notes) issued by Unitymedia Hessen and Unitymedia NRW, as co-issuers, or Unitymedia, as applicable, are, subject to certain terms and conditions (including consent by holders of a majority in aggregate principal amount of the applicable KBW Notes to participate in the exchange offer), offered in exchange for KBW Notes. Unitymedia is the parent company of Unitymedia Hessen and Unitymedia NRW and another subsidiary of Liberty Global.

KBW and UPC Germany HC1 (as applicable), may redeem all of the KBW Notes at prices equal to their respective principal amounts, plus accrued and unpaid interest, upon the occurrence of certain changes in tax law. If KBW and UPC Germany HC1 (as applicable) or certain of their subsidiaries sell certain assets or experience specific changes in control, KBW and UPC Germany HC1 (as applicable) must offer to repurchase the KBW Notes at a redemption price of 101%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

KBW and UPC Germany HC1 (as applicable), may redeem some or all of the KBW Notes at the following redemption prices (expressed as a percentage of the principal amount), plus accrued and unpaid interest and additional amounts, if any, to the applicable redemption date, if redeemed during the twelve-month period commencing on March 15 of the years set out below:

| | - | Redemption price | |
|---------------------|---|--|---------------------|
| <u>Year</u> | KBW Senior Secured Fixed Rate Notes | KBW Senior Secured Floating Rate Notes | KBW Senior Notes |
| 2012 | N.A. | 101.000% | N.A. |
| 2013 | N.A. | 100.000% | N.A. |
| 2014 | N.A. | 100.000% | N.A. |
| 2015 | 103.750% | 100.000% | N.A. |
| 2016 | 101.875% | 100.000% | 104.750% |
| 2017 | 100.000% | 100.000% | 103.167% |
| 2018 | 100.000% | 100.000% | 101.583% |
| 2019 and thereafter | 100.000% | N.A. | 100.000% |

KBW Revolving Credit Facility

KBW is the borrower under a €100.0 million secured revolving credit facility agreement with certain lenders (the KBW Revolving Credit Facility), which was undrawn as of December 31, 2011. The interest rate for the KBW Revolving Credit Facility is EURIBOR plus a margin of 3.75%. Borrowings under the KBW Revolving Credit Facility, which mature on March 31, 2017, may be used for general corporate and working capital purposes.

In addition to customary restrictive covenants and events of default, the KBW Revolving Credit Facility requires compliance with a Consolidated Leverage Ratio, as defined in the KBW Revolving Credit Facility. The KBW Revolving Credit Facility is secured by first ranking security interests over the same collateral that secures the KBW Senior Secured Notes. The KBW Revolving Credit facility is guaranteed on a senior basis by UPC Germany HC1, Kabel GP and each of our other subsidiaries that become a Significant Subsidiary (as defined in the KBW Revolving Credit Facility).

Maturities of Debt

For information concerning the maturities of our debt as of December 31, 2011, see note 5.

(13) Commitments and Contingencies

Commitments

In the ordinary course of business, we have entered into agreements that commit our company to make cash payments in future periods with respect to non-cancellable operating leases, programming contracts, purchases of customer premises equipment and other items. These include several long-term term agreements with Deutsche Telekom and its affiliates with respect to usage and access for underground cable duct space, the use of fiber optic transmission systems, tower and facility space. In general, these agreements primarily impose fixed prices for a limited period of time, which may then be raised to reflect services requested additionally and increased costs, subject to index-linked limitations. Some agreements impose prices based on the cost to Deutsche Telekom of services that are passed through to us. In accordance with EU-IFRS, we treat these agreements as operating rather than finance leases or as other commitments, as applicable. We expect that in the ordinary course of business, operating leases that expire generally will be renewed or replaced by similar leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Expenses for operating leases included in our statement of operations were €36.4 million, €36.5 million and €34.1 million during 2011, 2010 and 2009, respectively. Details of our operating lease contracts and the respective significant leasing arrangements are as follows:

| <u>Lease</u> | Tern | ns | <u>Te</u> | Terms of renewal Purchase optio | | | | ons | Contingent rent | | | | | |
|-----------------------------------|--------------|-------|-------------|-------------------------------------|--------------|----|------------------|----------------|-----------------|----|-----------------|----------------|---------------|--|
| Building Dark fiber Cable ducts | ر 1-19 | ears/ | ; | 1-5 years 1-5 years 1-5 years | | | | No No No | | | | No No No | | |
| <u> </u> | 2012 | | 2013 | | Payn 2014 | | s due du 2015 | | : 2016_ | Th | <u>ereafter</u> | | Total | |
| | | | | | | in | millions | 5 | | | | | | |
| Operating leases€ | 34.2 | € | 33.1 | € | 31.9 | € | 30.5 | € | 28.7 | € | 374.4 | € | 532.8 | |
| Other commitments € | 27.3 61.5 | € | 9.8 42.9 | € | 6.2 38.1 | € | 6.1 36.6 | € | 1.6 30.3 | € | 2.5 376.9 | € | 53.5 586.3 | |

Operating leases include indefinite-lived lease agreements with Deutsche Telekom for cable ducts. The lease payments for these leases are €24.7 million annually. We have the legal right to cancel these agreements with a notice period of 24 months, however the technological requirements to replace leased capacity represent economic penalties that would result in the reasonably assured continuance of the leases for a longer period of time. Due to German law governing the statute of limitations, the agreements in effect represent a maximum lease term of 30 years, after which time Deutsche Telekom has certain additional rights under the lease. Accordingly, the operating lease amounts included in the above table reflect payments under the Deutsche Telekom lease agreements through the applicable statutory termination dates.

The other commitments consist primarily of service and supply agreements, contractual obligations under mobile network capacity agreements, certain service commitments with Deutsche Telekom and programming commitments. 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 movie and 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.

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. 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.

At December 31, 2011, the KBW Senior Notes, which were obligations of KBW Musketeer at that date, were guaranteed by Kabel BW, KBW and Kabel GP on a subordinated basis. For information concerning changes in the guarantors of the KBW Senior Notes, see note 12.

Other Contingencies

LGI/KBW Transaction. In connection with the LGI/KBW Transaction, we made certain commitments to address the competition concerns of the German Federal Cartel Office (the FCO) that could have an adverse impact on our future operating results and cash flows. For additional information, see note 17.

Other. We have contingent liabilities related to legal proceedings and other matters arising in the ordinary course of business. We expect that the amounts, if any, which may be required to satisfy these contingencies will not be material in relation to our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(14) Income Taxes

As a result of the December 31, 2010 retrospective termination of a profit and loss transfer agreement between Kabel BW and KBW, Kabel BW and its subsidiaries are taxed on a separate legal entity basis and therefore, losses or profits are not shared between these companies. Accordingly, each entity is liable for its separate taxable income or loss and resulting liability or carryforward and the current and deferred tax positions in this report reflect those individual positions.

The details of our current and deferred income tax benefit (expense) are as follows:

| | Year ended December 31, | | | | | | | | |
|------------------------------------|-------------------------|-------|------|----------|---|-------|--|--|--|
| | | 2011 | | 2010 | | 2009 | | | |
| | | | in r | millions | | _ | | | |
| Current tax expense | € | (9.4) | € | (7.8) | € | (6.7) | | | |
| Deferred tax benefit (expense) | | 6.7 | | 52.5 | | (2.6) | | | |
| Total income tax benefit (expense) | € | (2.7) | € | 44.7 | € | (9.3) | | | |

Income tax benefit (expense) attributable to our net earnings before income taxes differs from the income tax benefit computed by applying the German income tax rate of 29.825% as a result of the following:

| | | Year | ende | d Decembe | er 31, | |
|---|---|-------------------------|------|-------------------------|--------|----------------------|
| | | 2011 | ir | 2010 millions | | 2009 |
| Computed "expected" income tax expense | | (22.0) 26.1 (5.5) | € | (27.7) 77.6 (3.5) | € | (14.5) — (2.8) |
| Unrecognized net operating losses and interest carryforwards Other, net Total benefit (expense) | € | — (1.3) (2.7) | € | (1.5) (0.2) 44.7 | € | 5.0 3.0 (9.3) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

The details of our deferred tax balances at December 31, 2011 and 2010 and our deferred tax benefit (expense) for the years ended December 31, 2011 and 2010 are as follows:

| | | Decembe | | Year ended December 31, 2011 | | | | | | | | |
|---|-----------|---------------|----------|------------------------------|-------------|---------------------------------------|----------|---|--|--|--|--|
| | Defe a | | | | sta | ognition in tement of perations | com | ognition in other orehensive ncome | | | | |
| | | | | | in millions | | | | | | | |
| Tax loss carryforwards Interest carryforwards | | 171.0 13.8 | € | _ | € | 12.1 4.0 | € | _ | | | | |
| Property and equipment | | _ | | 46.8 | | 2.4 | | _ | | | | |
| Intangible assets | | | | 153.1 | | (12.1) | | _ | | | | |
| Receivables | | 0.1 | | 3.3 | | (1.4) | | _ | | | | |
| Provisions | | 1.0 | | _ | | | | _ | | | | |
| Debt Derivative instruments | | 9.1 | | 2.1 7.1 | | 7.4 | | — (4 E) | | | | |
| Other | | 4.0 1.2 | | 0.2 | | (5.0) (0.7) | | (4.5) | | | | |
| Net assets with liabilities within same | | 1.2 | | 0.2 | | (0.7) | | _ | | | | |
| jurisdiction | | (200.2) | | (200.2) | | _ | | _ | | | | |
| Jan salonom | € | | € | 12.4 | € | 6.7 | € | (4.5) | | | | |
| | | Decembe | r 31, 20 | 010 | | Year Decembe | | | | | | |
| | De | ferred tax | | erred tax | sta | ognition in | compi | ognition in other ehensive | | | | |
| | | <u>assets</u> | | bilities | in millions | perations | | ncome | | | | |
| | | | | | | | | | | | | |
| Tax loss carryforwards | € | 158.9 | € | _ | € | 62.3 | € | _ | | | | |
| Interest carryforwards | | 9.8 | | | | 3.2 | | | | | | |
| Property and equipment | | _ | | 49.3 | | 1.1 | | _ | | | | |
| Intangible assets | | _ | | 141.0 | | (11.4) | | _ | | | | |
| Receivables | | 0.1 | | 1.9 | | (1.9) | | _ | | | | |
| Provisions | | 1.0 | | | | (0.1) | | _ | | | | |
| Debt | | _ | | 0.4 | | 0.3 | | _ | | | | |
| Derivative instruments | | 6.3 | | _ | | _ | | 0.9 | | | | |
| Other | | 1.8 | | | | (1.0) | | _ | | | | |
| Net assets with liabilities within same | | (177.9) | | (177.9) | | | | | | | | |
| jurisdiction | € | (1/1.9) | € | 14.7 | £ | <u> </u> | € | 0.9 | | | | |
| | | _ | _ | 14.7 | 7 | JZ.J | <u> </u> | 0.7 | | | | |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

No deferred tax assets have been recognized for the following carryforwards:

| | | December 31, | | | | |
|---|---|--------------|---|-------|--|--|
| | 2 | 011 | 2 | 2010 | | |
| | | in millions | | | | |
| Interest carryforwards | € | | € | 7.5 | | |
| Trade tax loss carryforwards | € | | € | 2.1 | | |
| Corporate income tax loss carryforwards | € | | € | 164.8 | | |

(15) Shareholder's Equity

Our share capital consists of one share issued, outstanding and fully paid with a par value of €25,000. At December 31, 2011, this share was held by KBW Musketeer. For information concerning the 2012 Reorganization, see note 1.

(16) Related-Party Transactions

Our primary related-party relationships include relationships with our current and former shareholders, our current and former shareholders' affiliates and key management personnel.

Our related-party transactions consist of the following:

| | Year ended December 31, | | | | | | | |
|--------------------------|-------------------------|------|---|---------------------|---|-------|--|--|
| | | 2011 | | 2010 in millions | | 2009 | | |
| SG&A | € | 1.3 | € | (1.8) | € | 0.7 | | |
| Interest income | | 27.8 | | 0.1 | | 0.2 | | |
| Included in net earnings | € | 26.5 | € | 1.9 | € | (0.5) | | |

SG&A. The 2011 amount primarily relates to our reimbursement of certain payroll costs incurred by KBW Musketeer on our behalf. The 2010 amount primarily consists of a $\{2.1\}$ million reimbursement received from Oskar Rakso for certain third-party consulting costs that we incurred on Oskar Rakso's behalf. In addition, less significant charges from Oskar Rakso for services rendered and costs incurred on our behalf are included in the amounts reported for all periods presented.

Interest income. Related-party interest income for 2011 primarily relates to amounts outstanding under the KBW Musketeer Loan Facility (as described below). Related party interest for 2010 and 2009 primarily relates to our noncurrent note receivable from Oskar Rakso. See below for a description of these noncurrent notes receivables.

Although we believe that charges and reimbursements described above are reasonable, no assurance can be given that the costs and expenses reflected in our consolidated statements of operations are reflective of the costs that we would incur on a standalone basis.

Guarantee of parent debt. For information concerning certain guarantees that we provide with respect to the KBW Senior Notes, see note 12.

Current related-party receivables. Current related-party receivables of €1.0 million and €2.1 million are reported in other current assets in our consolidated balance sheets as of December 31, 2011 and 2010, respectively. The balance at December 31, 2011 consists primarily of value-added taxes receivable from KBW Musketeer. The balance at December 31, 2010 consists of a receivable from Oskar Rakso for the reimbursement of certain third-party consulting costs.

KABEL BW ERSTE BETEILIGUNGS GMBH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

Noncurrent notes receivable from direct and indirect shareholders. These notes aggregated €570.1 million and €2.0 million at December 31, 2011 and 2010, respectively. The December 31, 2011 amount is comprised of (i) amounts outstanding under the KBW Musketeer Loan Facility (as described below) of €486.6 million and related accrued interest of €11.3 million and (ii) two notes receivable from UPC Germany HC2, including a €70 million loan that was made to UPC Germany HC2 on December 29, 2011 and a €2.2 million note including interest that was originally borrowed by Oskar Rakso and transferred to UPC Germany HC2 as part of the LGI/KBW Transaction. The December 31, 2010 amount consists of the €2.0 million loan to Oskar Rakso that was ultimately transferred to UPC Germany HC2 in 2011.

As described in note 12, the KBW Musketeer Loan Facility originated on March 31, 2011, when Kabel BW loaned to KBW Musketeer €337.6 million in cash pursuant to a loan agreement dated March 30, 2011. The amount loaned to KBW Musketeer was discounted from the €347.6 million principal amount of the KBW Musketeer Loan Facility, with the €10.0 million discount equal to KBW Musketeer's proportionate share of the KBW Senior Secured Notes issuance costs that were incurred by Kabel BW. This discount was being amortized as related-party interest income using the effective interest method over the term of the loan agreement. The stated interest rate of the KBW Musketeer Loan Facility was 9.5% per annum. During the remainder of 2011, we loaned an additional €148.4 million to KBW Musketeer under the KBW Musketeer Loan Facility, of which €132.6 million was a cash loan and the remaining €15.8 million was capitalized to principal in settlement of interest that was due on amounts outstanding pursuant to the KBW Musketeer Loan Facility.

Current related-party payables. As of December 31, 2011, our other current liabilities include €10.3 million of value-added tax liabilities payable to KBW Musketeer. KBW Musketeer remits value-added taxes on behalf of the consolidated Kabel BW group.

As discussed in note 1, in the 2012 Reorganization, Kabel BW, KBW Musketeer and UPC Germany HC2 will each be merged into KBW, and as a result, (i) our receivables from, and payables to, KBW Musketeer and our receivables from UPC Germany HC2 will thereby be extinguished, and (ii) KBW will become obligated under an intercompany note payable to UPC Germany HC1 that arose in connection with UPC Germany HC1's assumption of KBW Musketeer's obligations under the KBW Senior Notes.

Management Remuneration. Salaries, bonuses, and benefit related remuneration of the Management Directors was €2.4 million and €2.2 million during 2011 and 2010, respectively.

(17) Subsequent Events

As discussed in note 1, in the 2012 Reorganization, Kabel BW, KBW Musketeer and UPC Germany HC2 will each be merged into KBW. As a result of the 2012 Reorganization, UPC Germany HC2's cost to acquire KBW Musketeer in the LGI/KBW Transaction will be reflected in KBW's consolidated financial statements effective January 1, 2012. Additional details regarding the LGI/KBW Transaction are presented below.

LGI/KBW Transaction. On December 15, 2011, the LGI/KBW Transaction was completed, whereby UPC Germany HC2 acquired KBW Musketeer pursuant to a Sale and Purchase Agreement dated March 21, 2011 with Oskar Rakso as the seller (the KBW Purchase Agreement). The acquisition was completed in order to achieve certain financial, operational and strategic benefits through the integration of KBW with Unitymedia, Liberty Global's existing broadband communications operator in Germany, and, to a lesser extent, with Liberty Global's other broadband communications operations in Europe.

As part of the regulatory approval process for the LGI/KBW Transaction, our company and Unitymedia made certain commitments to address the competition concerns of the FCO, as outlined below:

(a) The digital free-to-air television channels (as opposed to channels marketed in premium subscription packages) distributed on the networks of our company and Unitymedia will be distributed in unencrypted form commencing January 1, 2013. This commitment is consistent with our current practice and generally covers free-to-air television channels in standard definition and high definition (HD). If, however, free-to-air television broadcasters request their HD content to be distributed in an encrypted HD package, the encryption of free-to-air HD channels is still possible. In addition, our company and Unitymedia made a commitment

KABEL BW ERSTE BETEILIGUNGS GMBH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

that, through December 15, 2015, the annual carriage fees received by our company and Unitymedia for each such free-to-air television channel distributed in digital or simulcast in digital and analog would not exceed a specified annual amount, determined by applying the respective current rate card systems of our company and Unitymedia as of January 1, 2012;

- (b) Effective January 1, 2012, our company and Unitymedia waived their exclusivity rights in access agreements with housing associations with respect to the usage of infrastructures other than the in-building distribution networks of our company and Unitymedia to provide television, broadband internet or telephony services within the building;
- (c) Effective January 1, 2012, upon expiration of the minimum term of an access agreement with a housing association, our company or Unitymedia, as applicable, will transfer the ownership rights to the in-building distribution network to the building owner or other party granting access. In addition, our company and Unitymedia each waived the rights to remove in-building distribution networks; and
- (d) A special early termination right will be granted with respect to certain of our company's and Unitymedia's existing access agreements with the largest housing associations that cover more than 800 dwelling units and have a remaining term of more than three years. The total number of dwelling units covered by the affected agreements is approximately 340,000, of which approximately 110,000 and 230,000 are located in the footprints of our company and Unitymedia, respectively. The special termination right may be exercised on or before September 30 of each calendar year up to the expiration of the current contract term, with termination effective as of January 1 or July 1 of the following year. If the special termination right is exercised, compensation will be paid to partially reimburse our company or Unitymedia, as applicable, for unamortized investments in modernizing the in-building network based on an agreed formula.

At closing, Oskar Rakso transferred its KBW Musketeer shares and assigned the balance of a loan receivable from KBW Musketeer to UPC Germany HC2 in consideration of UPC Germany HC2's payment of €1,062.4 million in cash (the KBW Purchase Price). The KBW Purchase Price, together with KBW's consolidated net debt at December 15, 2011 (aggregate fair value of debt outstanding less cash and cash equivalents) of €2,152.3 million resulted in total consideration of €3,214.7 million before direct acquisition costs. The KBW Purchase Price included €50.0 million that was deposited into escrow, which, subject to any claims timely made under the KBW Purchase Agreement, will be released to Oskar Rakso on December 31, 2012.

In January 2012, two of our competitors, including Deutsche Telekom, each filed an appeal against the FCO regarding its decision to approve the LGI/KBW Transaction. We believe the decision will ultimately be upheld and currently intend to support the FCO in defending the decision. In addition, we do not expect that the filing of these appeals will have any impact on the ongoing integration and development of our and Unitymedia's operations. The ultimate resolution of this matter is expected to take up to four years, including the appeals process.

UPC Germany HC2 accounted for its acquisition of KBW Musketeer using the acquisition method of accounting, whereby the total purchase price was allocated to the acquired identifiable net assets based on assessments of their respective fair values, and the excess of the purchase price over the fair values of these identifiable net assets was allocated to goodwill. The purchase price allocation is preliminary and subject to adjustment based on our final assessment of the fair values of the acquired identifiable assets and liabilities. Although most items in the valuation process remain open, the items with the highest likelihood of changing upon finalization of the valuation process include long-lived assets, goodwill and income taxes.

As a result of the increase in the cost basis associated with KBW's property and equipment and intangible assets that will result from the 2012 Reorganization, we expect that KBW's depreciation and amortization will increase significantly in 2012 and future years, as compared to the amounts reflected in our 2011 consolidated statement of operations.

KABEL BW ERSTE BETEILIGUNGS GMBH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued) December 31, 2011

(18) <u>Disclosures according to Generally Accepted Accounting Principles in Germany</u>

The average number of employees in 2011 and 2010 was 798 and 794, respectively. The number of employees calculated in full time equivalents (FTE) as a quarterly average was 789 and 769 in 2011 and 2010, respectively. In our operating departments, which include network and customer operations and customer services, we employed 612 FTE and 613 FTE in 2011 and 2010, respectively, and in our administration departments, consisting of sales & marketing, finance, IT and other general services, 177 FTE and 156 FTE were employed in 2011 and 2010, respectively.

Our auditors have received the following remuneration for the respective services:

| | Yea | Decemb | mber 31, | |
|-------------------------------|------|--------|----------|------|
| | 2011 | | 2 | 2010 |
| | | in m | illions | |
| Audit of financial statements | € | 0.8 | € | 0.3 |
| Assurance services | | 0.4 | | 0.1 |
| Total | € | 1.2 | € | 0.4 |

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

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

- Overview. This section provides an overview of our business, our product offerings and recent events.
- Results of Operations. This section provides an analysis of our results for the years ended December 31, 2011, 2010 and 2009.
- Liquidity and Capital Resources. This section provides an analysis of our liquidity and consolidated cash flow statements.

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

Overview

We are the largest broadband communications operator in the German federal state of Baden-Württemberg and a subsidiary of Liberty Global. We provide digital and analog cable television and broadband internet and telephony services to our customers over our broadband communications network.

We focus on achieving organic revenue and customer growth in our broadband communications operations by developing and marketing bundled entertainment and communications services, and extending and upgrading the quality of our networks where appropriate. 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 advanced services, comprised of our digital cable, broadband internet and telephony services with existing customers through product bundling and upselling, or by migrating analog cable customers to digital cable services that include various incremental service offerings, such as premium subscription channels, HD programming and digital video recorder (DVR) services. We plan to continue to employ this strategy to achieve organic revenue and customer growth.

In our upgraded network coverage area we provide an integrated triple-play (and in some instances, quadruple-play) service, offering our customers access to broadband internet, telephony and digital cable services in addition to our analog video services.

We provide the following products and services to our customers:

- <u>Video Services.</u> As of December 31, 2011, we provided our digital and analog cable services to 2,324,200 revenue generating units (RGUs), or 61.6% of homes passed by our network. Our digital cable service offerings include basic and premium digital services, including premium subscription channels, video on demand, HD and DVR services. As of December 31, 2011, 11% of our video base subscribed to premium digital cable services. We provide video services via individual contracts with single dwelling units or bulk contracts with landlords, housing associations and third parties (Professional Operators) that operate and administer the in-building network on behalf of housing associations. In addition, we receive carriage fees from both public and commercial broadcasters.
- <u>Broadband Internet Services.</u> As of December 31, 2011, we provided our broadband internet services to 767,000 RGUs. Our current service portfolio consists of services with download speeds ranging from 12 Mbps to 100 Mbps with no time or data volume restrictions. As of December 31, 2011, we had expanded the availability of our ultra high-speed broadband internet services through the deployment of Euro DOCSIS 3.0 capable equipment to virtually all of our two-way homes passed.
- <u>Telephony Services</u>. As of December 31, 2011, we provided our telephony services to 803,300 RGUs. We market our telephony services principally as a component of our triple-play and double-play product bundles and also on a standalone basis.

We added a total of 295,500 RGUs during 2011, as compared to 290,200 RGUs during 2010. The RGU growth during 2011 is attributable to the growth of our (i) telephony services, which added 147,000 RGUs, (ii)

broadband internet services, which added 139,900 RGUs and (iii) digital cable services, which added 33,200 RGUs. The growth of our broadband internet, telephony and digital cable RGUs was partially offset by declines in our analog cable RGUs of 24,600.

While we have continued to make progress during 2011 in growing our revenue and RGU base by increasing penetration of our video base with advanced services, we are experiencing significant competition. Key competitors of our cable business include:

- (i) satellite-based and other broadband cable-based reception of analog and digital free-to-air programming that compete primarily with our basic video products;
- (ii) Sky Deutschland GmbH and Deutsche Telekom with their respective content offerings that compete primarily with our premium digital cable products; and
- (iii) Deutsche Telekom and alternative digital subscriber line and fiber-based operators with their bundled offerings that compete primarily with our broadband internet and telephony products.

In general, our ability to increase or maintain the fees we receive for our services is limited by competitive, and to a lesser degree, regulatory factors. The competition we face in our markets, as well as any decline in the economic environment, could adversely impact our ability to increase or maintain our revenue, RGUs, operating cash flow or liquidity. We currently are unable to predict the extent of any of these potential adverse effects.

In addition to competition, our operations are subject to macro-economic and political risks that are outside of our control. For example, high levels of sovereign debt in the U.S. and certain European countries, combined with weak growth and high unemployment, could lead to fiscal reforms (including austerity measures), sovereign debt restructurings, currency instability, increased counterparty credit risk, high levels of volatility and, potentially, disruptions in the credit and equity markets, as well as other outcomes that might adversely impact our company. With regard to currency instability issues, concerns exist in the eurozone with respect to individual macrofundamentals on a country-by-country basis, as well as with respect to the overall stability of the European monetary union and the suitability of a single currency to appropriately deal with specific fiscal management and sovereign debt issues in individual eurozone countries. The realization of these concerns could lead to the exit of one or more countries from the European monetary union and the re-introduction of individual currencies in these countries, or, in more extreme circumstances, the possible dissolution of the euro entirely, which could result in the redenomination of a portion or, in the extreme case, all of our euro-denominated assets, liabilities and cash flows to the new currency of the country in which they originated. In addition, the capital market disruption that would likely accompany any such redenomination event could have a material adverse impact on our liquidity and financial condition. Furthermore, any redenomination event would likely be accompanied by significant economic dislocation, particularly within the eurozone countries, which in turn could have an adverse impact on demand for our products, and accordingly, on our revenue and cash flows. Moreover, any changes from a euro to a non-euro currency in Germany would require us to modify our billing and other financial systems. No assurance can be given that any required modifications could be made within a timeframe that would allow us to timely bill our customers or prepare and file required financial reports. In light of the significant exposure that we have to the euro through our euro-denominated borrowings, derivative instruments, cash balances and cash flows, a redenomination event could have a material adverse impact on our company.

The video, broadband internet and telephony businesses in which we operate are capital intensive. Significant capital expenditures are required to add customers to our networks, including expenditures for equipment and labor costs. Significant competition, the introduction of new technologies or adverse regulatory developments could cause us to decide to undertake previously unplanned upgrades of our broadband communications networks. 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.

In connection with the LGI/KBW Transaction, we made certain commitments to address the competition concerns of the FCO that could have an adverse impact on our future operating results and cash flows. For additional information, see note 17 to our consolidated financial statements.

Results of Operations

This section provides an analysis of our results of operations for the years ended December 31, 2011, 2010 and 2009. Our financial statements have been revised to conform to Liberty Global's financial statement presentation policies. As a result, prior period amounts have been reclassified to conform to the current year presentation. For additional information, see note 2 to our consolidated financial statements.

Financial Performance

Our results for the years ended December 31, 2011, 2010 and 2009 are as follows:

| | Year (| er 31, | | | |
|---|---------------|----------------|---------------|--|--|
| | 2011 | 2010 | 2009 | | |
| | | in millions | | | |
| Revenue: | | | | | |
| Subscription revenue: | | | | | |
| Video | € 299.3 | € 291.8 | € 281.8 | | |
| Broadband internet | 93.9 | 77.5 | 56.7 | | |
| Telephony | 143.4 | 118.2 | 92.0 | | |
| Total subscription revenue | 536.6 | 487.5 | 430.5 | | |
| Non-subscription revenue | 70.0 | 64.0 | 54.5 | | |
| | 606.6 | <u>551.5</u> | 485.0 | | |
| Operating costs and expenses: | | | | | |
| OpEx | 188.0 | 173.5 | 169.2 | | |
| SG&A | 66.0 | 64.8 | 58.5 | | |
| Impairments and other operating charges, net | 3.3 | 9.6 | 3.5 | | |
| | 257.3 | 247.9 | 231.2 | | |
| EBITDA | 349.3 | 303.6 | 253.8 | | |
| Depreciation and amortization | 147.2 | 136.4 | 125.0 | | |
| EBIT | 202.1 | <u> 167.2</u> | 128.8 | | |
| Financial and other income (expense): | | | | | |
| Interest expense | (105.3) | (76.5) | (72.6) | | |
| Interest income: | (/ | (/ | (- 7 | | |
| Third party | 1.7 | 0.6 | 0.3 | | |
| Related party | 27.8 | 0.1 | 0.2 | | |
| Foreign currency transaction losses | (30.4) | _ | _ | | |
| Realized and unrealized losses on derivative instruments, net | (9.7) | _ | (10.1) | | |
| Losses on extinguishment of debt | | _ | _ | | |
| Net financial expense | (128.4) | (75.8) | (82.2) | | |
| Other income | (.20) — | 1.4 | 2.0 | | |
| Net financial and other expense | (128.4) | (74.4) | (80.2) | | |
| Earnings before income taxes | 73.7 | 92.8 | 48.6 | | |
| Income tax benefit (expense) | (2.7) | 44.7 | (9.3) | | |
| Net earnings | <u>€ 71.0</u> | <u>€ 137.5</u> | <u>€ 39.3</u> | | |

2011 compared to 2010

Revenue

Revenue includes amounts earned from subscribers for ongoing services as well as channel carriage fees, interconnect fees, installation fees, late fees and other non-subscription revenue. We use the term "subscription revenue" in the following discussion to refer to amounts received from subscribers for ongoing services, excluding installation fees, mobile telephony revenue and late fees. The details of our revenue during 2011 and 2010 are set forth below:

| | Year ended December 31, | | | Increase | | | | | |
|------------------------------|-------------------------|-------|---|--------------|---------------------|------|------|--|----------|
| | 2011 | | | | 2010 in millions | | € | | <u>%</u> |
| Subscription revenue: | | | | | | | | | |
| Video | € | 299.3 | € | 291.8 | € | 7.5 | 2.6 | | |
| Broadband internet | | 93.9 | | 77.5 | | 16.4 | 21.2 | | |
| Telephony | | 143.4 | | 118.2 | | 25.2 | 21.3 | | |
| Total subscription revenue | | 536.6 | | 487.5 | | 49.1 | 10.1 | | |
| Non-subscription revenue (a) | | 70.0 | | 64.0 | | 6.0 | 9.4 | | |
| Total | € | 606.6 | € | <u>551.5</u> | € | 55.1 | 10.0 | | |

(a) Includes carriage fee, interconnect and installation revenue.

The details of our revenue increase during 2011, as compared to 2010, are set forth below (in millions):

| Increase in subscription revenue due to change in (a): | | |
|---|---|------|
| Average number of RGUs (b) | € | 43.3 |
| Average monthly subscription revenue per average RGU (ARPU) (c) | | 5.8 |
| Increase in non-subscription revenue (d) | | 6.0 |
| = | _ | 55.1 |

- (a) Our subscription revenue includes revenue from multi-year bulk agreements with landlords, housing associations or Professional Operators. These bulk agreements, which generally allow for the procurement of the basic analog signals from us at volume-based discounts, provide access to nearly two-thirds of our analog cable subscribers. During 2011, our 20 largest bulk agreement accounts generated approximately 5% of our total revenue (including estimated amounts billed directly to the building occupants for premium digital cable services, broadband internet and telephony services). No assurance can be given that our bulk agreements will be renewed or extended on financially equivalent terms or at all, particularly in light of the commitments we made to the FCO in connection with the LGI/KBW Transaction. In this regard, we agreed to, among other items, grant a special termination right with respect to certain of our larger bulk agreements. During 2011, our bulk agreements that are subject to this special termination right accounted for a significant portion of the annual revenue associated with (i) all of our bulk agreements and (ii) the 20 largest bulk agreement accounts mentioned above.
- (b) The increase in our subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of telephony, broadband internet and digital cable RGUs that were only partially offset by a decline in the average number of analog cable RGUs.
- (c) The increase in our subscription revenue related to a change in ARPU is due to an improvement in RGU mix, attributable to higher proportions of telephony, digital cable and broadband internet RGUs, that was only partially offset by a net decrease resulting primarily from the following factors: (i) lower ARPU due to the impact of promotional credits offered to new subscribers, (ii) lower ARPU due to a higher proportion of customers receiving discounted analog cable services through bulk agreements, (iii) lower ARPU due to a decrease in telephony call volume for customers on usage-based calling plans and (iv) lower ARPU due to an increase in the proportion of customers selecting lower-priced tiers of broadband internet services.
- (d) The increase in our non-subscription revenue is primarily attributable to increases in mobile, interconnect and carriage fee revenue. Our non-subscription revenue includes fees received for the carriage of channels on our analog and digital cable services. These fees, which represented approximately 5% of our total revenue during

2011, are subject to contracts that expire or are otherwise terminable by either party at various dates ranging from 2012 through 2015. No assurance can be given that these contracts will be renewed or extended on financially equivalent terms, or at all. In addition, in connection with the LGI/KBW Transaction, we made a commitment to the FCO that, through December 15, 2015, the annual carriage fees received by our company for each free-to-air television channel distributed in digital or simulcast in digital and analog would not exceed a specified annual amount, determined by applying our rate card system as of January 1, 2012.

For additional information regarding the commitments we made to the FCO in connection with the LGI/KBW Transaction, see note 17 to our consolidated financial statements.

OpEx

General. OpEx includes programming, network operations, interconnect, customer operations, customer care and other operating costs. Our network operating costs include significant expenses incurred pursuant to long-term agreements with Deutsche Telekom for the use of assets and other services provided by Deutsche Telekom. Our programming costs, which represent a significant portion of our OpEx, are expected to rise in future periods as a result of growth in digital cable services, price increases and other factors. The details of our OpEx during 2011 and 2010 are provided in the below table:

| | Year ended December 31, | | | | Increase | | | |
|---|-------------------------|--------------|---|------------------|----------|------------|-----------|--|
| | 2 | | | 2010 nillions | € | | <u> %</u> | |
| Direct costs (interconnect, programming, copyright, cost of goods sold and other) | £ | 74.0 | € | 70.8 | £ | 3.2 | 4.5 | |
| Staff related costs | | 74.0 29.1 | E | 24.7 | £ | 3.2 4.4 | 17.8 | |
| Network operating costs | | 52.4 | | 50.8 | | 1.6 | 3.1 | |
| Other indirect costs | | 32.5 | | 27.2 | | 5.3 | 19.5 | |
| Total | € | 188.0 | € | 173.5 | € | 14.5 | 8.4 | |

Our total OpEx increased €14.5 million or 8.4% during 2011, as compared to 2010. This increase includes the following factors:

- An increase in other indirect costs of €5.3 million or 19.5%, due primarily to (i) an increase in outsourced labor and professional fees of €2.6 million, attributable to increased call center costs due to higher call volumes, and (ii) an increase in bad debt and collection expenses of €2.1 million, due in part to RGU growth;
- An increase in staff-related costs of €4.4 million or 17.8%, due primarily to (i) €3.0 million of costs associated with the LGI/KBW Transaction, including €1.6 million of retention bonus expenses, and (ii) higher network operations staffing levels and higher levels of temporary employees;
- An increase in direct costs of €3.2 million or 4.5%, due primarily to (i) growth in digital video services and (ii) higher copyright and programming fees in 2011 as a result of the positive impact of accrual releases in 2010 following the resolution of certain operational contingencies; and
- An increase in network operating costs of €1.6 million or 3.1%, mostly attributable to higher leasing costs associated with Professional Operator in-building networks and higher electricity costs.

SG&A

General. SG&A includes human resources, information technology, general services, management, finance, legal and marketing costs and other general expenses. The details of our SG&A costs during 2011 and 2010 are provided in the below table:

| | Year ended December 31, | | | | Increase (decrease | | | |
|---------------------------|-------------------------|--------------------------|---|------|--------------------|----------|--------|--|
| | | 2011 2010 in millions | | | € | <u>%</u> | | |
| Staff related costs | | 22.7 | € | 21.0 | € | 1.7 | 8.1 | |
| Sales and marketing costs | | 25.3 | | 23.4 | | 1.9 | 8.1 | |
| Other indirect costs | | 18.0 | | 20.4 | | (2.4) | (11.8) | |
| Total | € | 66.0 | € | 64.8 | € | 1.2 | 1.9 | |

Our total SG&A increased €1.2 million or 1.9% during 2011, as compared to 2010. This increase includes the following factors:

- An increase in sales and marketing costs of €1.9 million or 8.1%, due primarily to (i) an increase in marketing expenditures associated with a brand relaunch and other advertising campaigns and (ii) higher expense for third-party sales commissions primarily due to lower proportions of capitalized third-party sales commissions;
- An increase in staff-related costs of €1.7 million or 8.1%, due primarily to €1.6 million of costs associated with the LGI/KBW Transaction, including €1.3 million of retention bonus expenses; and
- A decrease in other indirect costs of €2.4 million or 11.8%, due primarily to the positive impact of accrual releases following the settlement of certain operational contingencies.

Impairments and Other Operating Charges, Net

We recognized impairment costs and other operating charges of $\in 3.3$ million during 2011, as compared to $\in 9.6$ million during 2010. The 2011 amount includes an impairment charge of $\in 4.7$ million associated with the write-off of development costs related to a customer billing system that was discontinued, which was partially offset by gains resulting from the sale of certain long-lived assets. The 2010 amount primarily represents an impairment charge of $\in 9.7$ million associated with the write-off of development costs related to a customer care system that was discontinued.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €10.8 million or 7.9% during 2011, as compared to 2010, primarily due to an increase in depreciation of our property and equipment related to capital expenditures.

As a result of the increase in the cost basis associated with KBW's property and equipment and intangible assets that will result from the 2012 Reorganization that is described in note 1 to our consolidated financial statements, we expect that KBW's depreciation and amortization will increase significantly in 2012 and future years, as compared to the amounts reflected in our 2011 consolidated statement of operations.

Net Financial and Other Expense

Our net financial and other expense primarily includes interest expense, interest income, foreign currency transaction losses, realized and unrealized losses on derivative instruments and losses on extinguishment of debt. As further described below, we recorded net financial and other expense of €128.4 million during 2011, as compared to €74.4 million during 2010.

Interest expense

Interest expense increased \leq 28.8 million or 37.6% during 2011, as compared to 2010, due primarily to the net effect of (i) higher average debt balances associated with the issuance of the KBW Senior Secured Notes and the KBW Revolving Credit Facility in connection with the March 2011 refinancing of our bank debt and (ii) a \leq 7.3 million decrease in the losses incurred with respect to our interest rate swap contracts during the 2011 and 2010

periods in which we applied hedge accounting to these contracts. We applied hedge accounting to these derivative contracts from September 2009 through March 2011. For additional information, see notes 6 and 12 to our consolidated financial statements.

In connection with the 2012 Reorganization described in note 1 to our consolidated financial statements, KBW became obligated under an intercompany note payable to UPC Germany HC1 that arose in connection with UPC Germany HC1's assumption of KBW Musketeer's obligations under the KBW Senior Notes. Accordingly, in addition to the interest expense on the KBW Senior Secured Notes and the KBW Revolving Credit Facility, KBW will incur related-party interest expense on this intercompany loan during 2012.

Interest income

Interest income – third party increased €1.1 million during 2011, as compared to 2010. This increase is due to higher average cash and cash equivalent balances.

Interest income – related party increased €27.7 million during 2011, as compared to 2010. This increase is due to loans made to our direct and indirect shareholders during 2011. As these loans will be extinguished in connection with the 2012 Reorganization described in note 1 to our consolidated financial statements, KBW will not earn interest income on these loans during 2012. For additional information, see note 16 to our consolidated financial statements.

Foreign currency transaction losses

We recognized foreign currency transaction losses of €30.4 million during 2011, compared to nil during 2010. The 2011 amount relates to the remeasurement of the KBW Dollar Senior Secured Notes.

Realized and unrealized losses on derivative instruments, net

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

| | Year ended December 3 | | | | |
|-------------------------------------|-----------------------|--------|---|------|--|
| | | 2011 | | 2010 | |
| | | i | | | |
| Cross-currency derivative contracts | € | 17.5 | € | _ | |
| Interest rate derivative contract | | (27.2) | | | |
| Total | € | (9.7) | € | | |

Hedge accounting was applied from September 2009 through March 2011 to the interest rate swap contracts that hedged our then existing bank debt. In connection with the March 2011 refinancing of this bank debt, we settled our existing interest rate swap agreements and entered into new cross-currency swap and interest rate swap agreements in order to manage the U.S. dollar currency risks and the variable interest rate risks, respectively, associated with the new debt. Hedge accounting is not applied to the new derivative instruments. Accordingly, the 2011 amounts include losses incurred on the settlement of the old interest rate swaps and changes in the fair values of the new derivative instruments. For additional information, see note 6 to our consolidated financial statements.

Loss on Extinguishment of Debt

We recognized a loss on extinguishment of debt of €12.5 million during 2011 in connection with the March 2011 refinancing of our bank debt, as further described in note 12 to our consolidated financial statements.

Income Tax Benefit (Expense)

We recognized income tax expense of €2.7 million and income tax benefit of €44.7 million during 2011 and 2010, respectively.

The income tax expense during the year ended December 31, 2011 differs from the expected income tax expense of €22.0 million (based on the German 29.825% income tax rate), primarily due to the positive impact of the initial recognition of deferred tax assets for net operating loss and interest carryforwards. This positive impact was partially offset by the negative impact of certain permanent differences between the financial and tax accounting treatment of interest and other items.

The income tax benefit during the year ended December 31, 2010 differs from the expected income tax expense of €27.7 million (based on the German 29.825% income tax rate), primarily due to the positive impact of the initial recognition of deferred tax assets for net operating loss and interest carryforwards. The initial recognition of deferred taxes for net operating losses and interest carryforwards was primarily due to the December 31, 2010 retrospective termination of the profit and loss transfer agreement between Kabel BW and KBW.

For additional information regarding our income taxes, see note 14 to our consolidated financial statements.

Net Earnings

We reported net earnings of €71.0 million during 2011 as compared to €137.5 million during 2010.

Gains or losses associated with (i) the disposition of assets, (ii) changes in the fair values of derivative instruments and (iii) movements in foreign currency exchange rates are subject to a high degree of volatility, and as such, any gains from these sources do not represent a reliable source of income. In the absence of significant gains in the future from these sources or from other non-operating items, our ability to achieve net earnings is largely dependent on our ability to increase our aggregate Adjusted EBITDA to a level that more than offsets the aggregate amount of our (a) stock-based compensation, (b) impairment, restructuring and other operating charges or credits, (c) depreciation and amortization, (d) net financial and other expense and (e) income tax expenses.

2010 compared to 2009

Revenue

The details of our revenue during 2010 and 2009 are set forth below:

| | Year ended December 31, | | | | ease | | |
|------------------------------|-------------------------|-------|----|----------|------|------|-------------|
| | | 2010 | | 2009 | | € | <u>%</u> |
| | | | in | millions | | | |
| Subscription revenue: | | | | | | | |
| Video | € | 291.8 | € | 281.8 | € | 10.0 | 3.5 |
| Broadband internet | | 77.5 | | 56.7 | | 20.8 | 36.7 |
| Telephony | | 118.2 | | 92.0 | _ | 26.2 | 28.5 |
| Total subscription revenue | | 487.5 | | 430.5 | | 57.0 | 13.2 |
| Non-subscription revenue (a) | | 64.0 | | 54.5 | | 9.5 | <u>17.4</u> |
| Total | € | 551.5 | € | 485.0 | € | 66.5 | 13.7 |
| | | | | | | | |

(a) Includes carriage fee, interconnect and installation revenue.

The details of our revenue increase during 2010, as compared to 2009, are set forth below (in millions):

| Increase in subscription revenue due to change in: | | |
|--|---|------|
| Average number of RGUs (a) | € | 40.5 |
| ARPU (b) | | 16.5 |
| Increase in non-subscription revenue (c) | | 9.5 |
| Total | _ | |

⁽a) The increase in our subscription revenue related to a change in the average number of RGUs is attributable to increases in the average numbers of telephony, broadband internet and, to a lesser extent, digital cable RGUs.

⁽b) The increase in our subscription revenue related to a change in ARPU is due to an improvement in RGU mix, attributable to higher proportions of telephony, digital cable and broadband internet RGUs, that was only partially

offset by a net decrease resulting primarily from the following factors: (i) lower ARPU due to the impact of promotional credits offered to new subscribers, (ii) lower ARPU due to a higher proportion of customers receiving discounted analog cable services through bulk agreements, (iii) lower ARPU due a decrease in telephony call volume for customers on usage-based calling plans and (iv) higher ARPU due to an increase in (a) the proportion of customers selecting higher-priced tiers of broadband internet services and (b) value-added services, such as internet security packages.

(c) The increase in our non-subscription revenue is primarily attributable to higher construction sales and interconnect revenue.

OpEx

The details of our OpEx during 2010 and 2009 are provided in the below table:

| | Year ended | December 31, | Increase (| decrease) |
|---|----------------|----------------|---------------|---------------|
| | 2010 | 2009 | € | % |
| | | in millions | | |
| Direct costs (interconnect, programming, copyright, cost of goods | 6 70.0 | 6 (40 | 6 (0 | 0.0 |
| sold and other) | € 70.8 24.7 | € 64.8 22.1 | € 6.0 2.6 | 9.3 11.8 |
| Network operating costs | 50.8 | 52.2 | (1.4) | (2.7) |
| Other indirect costs | 27.2 | 30.1 | <u>(2.9</u>) | <u>(9.6</u>) |
| Total | <u>€ 173.5</u> | <u>€ 169.2</u> | <u>€ 4.3</u> | 2.5 |

Our total OpEx increased €4.3 million or 2.5% during 2010, as compared to 2009. This increase includes the following factors:

- An increase in direct costs of €6.0 million or 9.3%, due primarily to the net effect of (i) an increase in interconnect expenses of €6.6 million, primarily associated with telephony RGU growth and (ii) lower copyright and programming fees as a result of the positive impact of accrual releases in 2010 following the resolution of certain operational contingencies;
- An increase in staff-related costs of €2.6 million or 11.8%, due primarily to higher network operations staffing levels;
- A decrease in network operating costs of €1.4 million or 2.7%, mostly attributable to lower network maintenance expenses; and
- A decrease in other indirect costs of €2.9 million or 9.6%, due primarily to a decrease in bad debt and collection expenses of €1.4 million, primarily associated with improved collection experience.

SG&A

The details of our SG&A costs during 2010 and 2009 are provided in the below table:

| | Year ended December 31, | | | | <u>Increase</u> | | | |
|---------------------------|-------------------------|------|---|---------------------|-----------------|-----|----------|--|
| | | | | 2009 in millions | | € | <u>%</u> | |
| Staff related costs | € | 21.0 | € | 19.3 | € | 1.7 | 8.8 | |
| Sales and marketing costs | | 23.4 | | 23.0 | | 0.4 | 1.7 | |
| Other indirect costs | | 20.4 | | 16.2 | | 4.2 | 25.9 | |
| Total | € | 64.8 | € | 58.5 | € | 6.3 | 10.8 | |

Our total SG&A increased €6.3 million or 10.8% during 2010, as compared to 2009. This increase includes the following factors:

- An increase in other indirect costs of €4.2 million or 25.9%, due primarily to (i) an increase in outsourced labor and professional fees of €1.9 million, attributable to consulting costs associated with strategic information technology projects, and (ii) net increases in other individually insignificant cost categories; and
- An increase in staff-related costs of €1.7 million or 8.8%, due primarily to annual wage increases and higher marketing staffing levels.

Impairments and Other Operating Charges, Net

We recognized impairment costs and other operating charges of $\[\in \]$ 9.6 million during 2010 compared to $\[\in \]$ 3.5 million during 2009. The 2010 amount primarily represents an impairment charge of $\[\in \]$ 9.7 million associated with the write-off of development costs related to a customer care system that was discontinued. The 2009 amount primarily represents an impairment charge of $\[\in \]$ 3.3 million associated with certain network assets.

Depreciation and Amortization Expense

Depreciation and amortization expense increased €11.4 million or 9.1% during 2010, as compared to 2009, primarily due to (i) an increase in depreciation of our property and equipment related to capital expenditures and (ii) an increase in amortization of capitalized subscriber acquisition costs.

Net Financial and Other Expense

As further described below, we recorded net financial and other expense of €74.4 million during 2010 as compared to €80.2 million during 2009.

Interest expense

Interest expense increased €3.9 million or 5.4% during 2010 as compared to 2009, due primarily to the net effect of (i) a €13.4 million increase in the losses incurred with respect to our interest rate swap contracts during the 2010 and 2009 periods in which we applied hedge accounting to these contracts and (ii) lower average interest rates associated with our variable-rate debt, and to a lesser extent, lower average debt balances. We applied hedge accounting to our interest rate derivative contracts from September 2009 through March 2011. For additional information, see notes 6 and 12 to our consolidated financial statements.

Interest income

Interest income – third party increased €0.3 million during 2010 as compared to 2009.

Interest income – related party decreased €0.1 million during 2010 as compared to 2009.

Realized and unrealized losses on derivative instruments, net

We recognized realized and unrealized losses on derivative instruments, net, of nil during 2010 as compared to losses of €10.1 million during the year ended December 31, 2009. Hedge accounting was applied from September 2009 through March 2011 to the interest rate swap contracts that hedged our then existing bank debt. Accordingly, the 2009 amount includes the changes in the fair value of these interest rate swap contracts prior to September 2009.

Other income

We recorded other income of €1.4 million during 2010 as compared to €2.0 million during 2009.

Income Tax Benefit (Expense)

We recognized income tax benefit of €44.7 million during 2010 and income tax expense of €9.3 million during 2009.

The income tax benefit during the year ended December 31, 2010 differs from the expected income tax expense of €27.7 million (based on the German 29.825% income tax rate), primarily due to the positive impact of the initial recognition of deferred tax assets for net operating loss and interest carryforwards. The initial recognition of deferred taxes for net operating losses and interest carryforwards was primarily due to the December 31, 2010 retrospective termination of the profit and loss transfer agreement between Kabel BW and KBW.

The income tax expense during the year ended December 31, 2009 differs from the expected income tax expense of €14.5 million (based on the German 29.825% income tax rate), primarily due to the positive impact of the initial recognition of deferred taxes on temporary differences resulting from an audit by tax authorities.

For additional information regarding our income taxes, see note 14 to our consolidated financial statements.

Net Earnings

We reported net earnings of €137.5 million during 2010 as compared to €39.3 million during 2009.

Liquidity and Capital Resources

Sources and Uses of Cash

Kabel BW is a holding company, and its primary assets are cash and cash equivalents and investments in consolidated subsidiaries. As Kabel BW generally is able to access the financial assets of its operating subsidiary (KBW), we assess our sources and uses of liquidity on a consolidated basis.

Our sources of liquidity include (i) cash provided by our operations, (ii) our cash and cash equivalent balances (€26.2 million at December 31, 2011) and (iii) availability under the KBW Revolving Credit Facility (€100.0 million at December 31, 2011). In addition, from time to time, our sources of liquidity may include funding from our immediate parent company (and ultimately from Liberty Global and other Liberty Global subsidiaries) in the form of loans or contributions, as applicable.

Our sources of liquidity typically are used to fund our debt service requirements, capital expenditures and other liquidity requirements that may arise from time to time, including the transfer of any excess funds to our immediate parent company (and ultimately to Liberty Global and other Liberty Global subsidiaries, subject to the terms of the indentures governing the KBW Notes, as described in note 12 to our consolidated financial statements) in the form of loans or distributions, as applicable.

Our most significant financial obligations are our debt obligations, as described in note 12 to our consolidated financial statements. The terms of our debt instruments contain certain restrictions, including covenants that restrict our ability to incur additional debt. As a result, additional debt financing is only a potential source of liquidity if the incurrence of any new debt is permitted by the terms of our existing debt instruments.

Capitalization

Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control. We believe that our cash on hand, the cash provided from our operations, available borrowings under the KBW Revolving Credit Facility and, if needed, any loans or contributions from our immediate parent company or other Liberty Global subsidiaries will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements through December 31, 2012, although no assurance can be given that this will be the case. However, as our debt matures 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 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 markets we access and accordingly, our future liquidity and financial position. 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.

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 Adjusted EBITDA of our operating subsidiaries and to achieve adequate returns on our capital expenditures and acquisitions. In addition, our ability to obtain additional

debt financing is limited by the leverage covenants contained in our and our immediate parent's debt instruments. In this regard, if our Adjusted EBITDA were to decline, we could be required to repay or limit our borrowings under the KBW Revolving Credit 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.

Seasonality

Certain aspects of our liquidity are subject to seasonal factors. In particular, our cash receipts are higher during December, January and February due to a disproportionately high level of annual prepayments from our customers. We also generally have a higher relative level of capital expenditures in the second half of each calendar year. Our interest payments on the KBW Senior Secured Fixed Rate Notes are payable semi-annually on March 15 and September 15, and our interest payments on the KBW Senior Secured Floating Rate Notes are payable quarterly on March 15, June 15, September 15 and December 15.

Consolidated Cash Flow Statements

2011 Cash Flow Statement

Summary. During 2011, we used net cash provided by our financing activities of €384.2 million, net cash provided by our operating activities of €216.8 million and €74.8 million of our existing cash and cash equivalents to fund net cash used by our investing activities of €675.8 million.

Operating activities. Net cash provided by our operating activities decreased €35.4 million, from €252.2 million during 2010 to €216.8 million during 2011. This decrease in cash provided is primarily attributable to the net effect of (i) a decrease in cash provided due to higher cash payments for interest, primarily related to (a) the March 31, 2011 payment of interest that had accrued on a payment-in-kind basis from August 1, 2006 through March 31, 2011 with respect to the Mezzanine Facility Agreement, as further discussed in note 2 to our consolidated financial statements, and (b) the new debt incurred in connection with the March 2011 refinancing of our bank debt, (ii) an increase in cash provided due to lower cash payments related to derivative instruments, (iii) a decrease in cash provided due to higher cash payments for taxes and (iv) an increase in the cash provided by our Adjusted EBITDA and related working capital items.

Investing activities. Net cash used by our investing activities increased €518.0 million, from €157.8 million during 2010 to €675.8 million during 2011. This increase in cash used is primarily attributable to the net effect of (i) an increase in cash used of €540.2 million associated with loans made to our direct and indirect shareholders, (ii) a decrease in cash used of €17.0 million associated with our other investing activities, and (iii) a decrease in cash used due to lower capital expenditures of €5.2 million, from €142.8 million during 2010 to €137.6 million during 2011.

For 2012, we expect capital expenditures as a percentage of revenue to be in the range of 23% to 25%.

Financing activities. Net cash provided by our financing activities was €384.2 million during 2011, compared to net cash used by our financing activities of €47.9 million during 2010. This change is due primarily to the net effect of (i) an increase in cash related to higher net borrowings of debt of €494.0 million, (ii) a decrease in cash of €45.6 million related to payment of financing costs and (iii) a decrease in cash related to cash paid upon early termination of interest rate derivative contracts of €16.3 million.

2010 Cash Flow Statement

Summary. During 2010, we used net cash provided by our operating activities of €252.2 million to fund net cash used by our investing activities of €157.8 million, net cash used by our financing activities of €47.9 million and a €46.5 million increase in our existing cash and cash equivalents.

Operating activities. Net cash provided by our operating activities increased €87.7 million, from €164.5 million during 2009 to €252.2 million during 2010. This increase in cash provided is primarily attributable to the net effect of (i) an increase in the cash provided by our Adjusted EBITDA and related working capital items, (ii) an increase in cash provided due to lower cash payments for interest, (iii) a decrease in cash provided due to higher cash payments related to derivative instruments and (iv) an increase in cash provided due to lower cash payments for taxes.

Investing activities. Net cash used by our investing activities increased €11.9 million, from €145.9 million during 2009 to €157.8 million during 2010. This increase in cash used is primarily attributable to the net effect of (i) an increase in cash used of €15.2 million associated with our other investing activities and (ii) a decrease in cash used due to lower capital expenditures of €3.3 million, from €146.1 million during 2009 to €142.8 million during 2010.

Financing activities. Net cash used by our financing activities increased €16.5 million, from €31.4 million during 2009 to €47.9 million during 2010. This increase in cash used is attributable to higher net repayments of debt.

Off-Balance Sheet Arrangements

Other than our guarantees of the KBW Senior Notes as described in note 13 to our consolidated financial statements, we are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

Our critical accounting policies include our policies with respect to:

- Impairment of property and equipment and intangible assets (including goodwill);
- Costs associated with construction and installation activities;
- Useful lives of long-lived assets;
- Fair value measurements; and
- Income tax accounting.

These policies are discussed in greater detail in note 4 to our consolidated financial statements.

SUPPLEMENTAL FINANCIAL INFORMATION (unaudited)

SUPPLEMENTAL FINANCIAL INFORMATION

TABLE OF CONTENTS

| | Page <u>Number</u> |
|---|-----------------------|
| SUPPLEMENTAL FINANCIAL INFORMATION | |
| Key Financial Overview of Kabel BW (unaudited) | IV-3 |
| KBW Musketeer Unaudited Condensed Pro Forma Consolidating Financial Information | IV-5 |

Key Financial Overview of Kabel BW (unaudited)

The following tables present selected financial information of Kabel BW and should be read in conjunction with the consolidated financial statements of Kabel BW. The amounts presented below reflect Liberty Global's financial statement presentation policies. For additional information, see note 2 to the consolidated financial statements of Kabel BW.

| | | | | | | Year ended December 31, | | | |
|--------------------------------------|----------------|---------------|---------------|------------------|---------------|---------------------------------|----------------|----------------|--|
| | | | | | 2 | 011 | 2010 | 2009 | |
| | | | | | | in millions, except percentages | | | |
| Revenue | | | | | € | 606.6 € | <u>551.5</u> € | 485.0 | |
| Adjusted EBITDA (a) | | | | | | 352.6 | 313.2 | 257.3 | |
| Depreciation and amortiz | | | | | | (147.2) | (136.4) | (125.0) | |
| Impairments and other of | | | | | | (3.3) | (9.6) | (3.5) | |
| EBIT | | J | | | | 202.1 | 167.2 | 128.8 | |
| Net financial and other e | xpense | | | | | (128.4) | (74.4) | (80.2) | |
| Income tax benefit (expe | ense) | | | | | <u>(2.7</u>) | 44.7 | (9.3) | |
| Net earnings | | | | | <u>€</u> | <u>71.0</u> € | 137.5 € | 39.3 | |
| CapEx (b) | | | | | <u>€</u> | 137.6 € | 142.8 € | 146.1 | |
| Adjusted EBITDA Margin | (c) | | | | | 58.1% | 56.8% | 53.1% | |
| CapEx as % of Revenue | | | | | | 22.7% | 25.9% | 30.1% | |
| 0ap2.x do 70 01 110101140 | | | | | | 221770 | 201770 | 00.170 | |
| | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 | <u>Q4 201</u> | <u>0</u> <u>Q3 2010</u> | Q2 2010 | <u>Q1 2010</u> | |
| | | | | in millions, e | xcept per | entages | | | |
| Revenue | € 157.3 | € 153.9 | € 148.7 | € 146.7 | € 144.3 | € 139.2 | € 135.8 | € 132.2 | |
| Adjusted EBITDA (a) Depreciation and | 90.5 | 91.4 | 85.7 | 85.0 | 81.3 | 81.4 | 75.6 | 74.9 | |
| amortization Impairments and other | (39.5) | (36.7) | (35.6) | (35.4) | (37.2 |) (34.6) | (32.8) | (31.8) | |
| operating credits | 4 | | | | | | . | (- ·) | |
| (charges) | | 0.2 | 0.3 | 0.2 | | | <u>(9.5</u>) | <u>(0.1</u>) | |
| EBIT | 47.0 | 54.9 | 50.4 | 49.8 | 44.1 | 46.8 | 33.3 | 43.0 | |
| Net financial and other | (22.4) | (29.9) | (24.4) | (20 E) | (19.3 |) (19.2) | (17.0) | (10.0) | |
| expense Income tax benefit | (32.6) | (29.9) | (26.4) | (39.5) | (19.3 |) (19.2) | (17.0) | (18.9) | |
| (expense) | | 0.7 | (4.0) | <u>(46.0</u>) | 59.8 | | <u>(7.1</u>) | <u>(6.9</u>) | |
| Net earnings (loss) | <u>€ 61.0</u> | <u>€ 25.7</u> | <u>€ 20.0</u> | <u>€ (35.7</u>) | € 84.6 | <u>€ 26.5</u> | <u>€ 9.2</u> | <u>€ 17.2</u> | |
| CapEx (b) | € 35.2 | <u>€ 34.6</u> | <u>€ 33.7</u> | <u>€ 34.1</u> | € 43.4 | € 34.8 | <u>€ 34.3</u> | <u>€ 30.3</u> | |
| Adjusted EBITDA | 67 60 / | EO 49/ | E7 40/ | E7 00/ | E4 204 | , EO EO. | EE 70/ | E/ 70/ | |
| Margin (c) CapEx as % of | | 59.4% | 57.6% | 57.9% | 56.3% | | | 56.7% | |
| Revenue | 22.4% | 22.5% | 22.7% | 23.2% | 30.1% | 25.0% | 25.3% | 22.9% | |

⁽a) Adjusted EBITDA is the primary measure used by our management to evaluate the company's performance. Adjusted EBITDA is also a key factor that is used by our internal decision makers to evaluate the effectiveness of our management for purposes of annual and other incentive compensation plans. We define EBITDA as earnings before net finance expense, income taxes, depreciation and

amortization. As we use the term, Adjusted EBITDA is defined as EBITDA before stock-based compensation, impairment, restructuring and other operating charges or credits and related-party fees and allocations, net. 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 Adjusted EBITDA is a meaningful measure and is superior to other available EU-IFRS measures because it represents a transparent view of our recurring operating performance that is unaffected by our capital structure and allows management to readily view operating trends and identify strategies to improve operating performance. We believe our Adjusted EBITDA 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 companies. Adjusted EBITDA should be viewed as a measure of operating performance that is a supplement to, and not a substitute for EBIT, net earnings (loss), cash flow from operating activities and other EU-IFRS measures of income or cash flows.

- (b) CapEx consist of expenditures for property and equipment and intangibles (except for customer lists) as reported in our EU-IFRS consolidated statements of cash flows.
- (c) We define Adjusted EBITDA Margin to mean Adjusted EBITDA as a percentage of revenue.

KBW Musketeer Unaudited Condensed Pro Forma Consolidating Financial Information

The following unaudited condensed pro forma consolidating financial information of KBW Musketeer is presented in order to comply with the terms of the indenture for the KBW Senior Notes. KBW Musketeer, which was formed on December 22, 2010, acquired Kabel BW on March 21, 2011 in a common control transaction that was accounted for at carryover basis. The following unaudited condensed pro forma consolidating financial information assumes that KBW Musketeer's acquisition of Kabel BW occurred on January 1, 2011. This information should be read in conjunction with the consolidated financial statements of Kabel BW.

KBW MUSKETEER UNAUDITED CONDENSED PRO FORMA CONSOLIDATING STATEMENT OF OPERATIONS Year Ended December 31, 2011

| | Kabel BW | KBW Musketeer parent only | Consolidating entries | KBW Musketeer consolidated | |
|--|---------------|---------------------------|-----------------------|----------------------------------|--|
| | | in millions | | | |
| Revenue | € 606.6 | <u>€ 1.1</u> | <u>€ (1.1</u>) | € 606.6 | |
| Operating costs and expenses: | | | | | |
| OpEx and SG&A | 254.0 | 1.3 | (1.1) | 254.2 | |
| Impairments and other operating charges, net | | _ | _ ′ | 3.3 | |
| | 257.3 | 1.3 | (1.1) | 257.5 | |
| EBITDA | 349.3 | (0.2) | _ | 349.1 | |
| Depreciation and amortization | 147.2 | | | 147.2 | |
| EBIT | 202.1 | (0.2) | | 201.9 | |
| Interest expense | (105.3) | (77.2) | 27.7 | (154.8) | |
| Other financial expense, net | (23.1) | | (27.7) | (50.8) | |
| Net financial expense | (128.4) | <u>(77.2</u>) | | (205.6) | |
| Earnings (loss) before income taxes | 73.7 | (77.4) | _ | (3.7) | |
| Income tax benefit (expense) | (2.7) | 10.0 | | 7.3 | |
| Net earnings (loss) | <u>€ 71.0</u> | <u>€ (67.4</u>) | € | € 3.6 | |

KBW MUSKETEER UNAUDITED CONDENSED PRO FORMA CONSOLIDATING STATEMENT OF CASH FLOWS Year Ended December 31, 2011

| | KBW Musketeer <u>Kabel BW</u> parent only | | Consolidating entries | KBW Musketeer consolidated |
|--|---|--------------|--------------------------|----------------------------------|
| | | in m | nillions | |
| Cash flow from operating activities: Net earnings (loss) | € 71.0 | € (67.4) | € — | € 3.6 |
| Adjustments to reconcile net earnings (loss) to | | (67.1) | | 0.0 |
| net cash provided by operating activities Net cash provided (used) by operating | <u>145.8</u> | <u>37.3</u> | | <u> 183.1</u> |
| activities | 216.8 | (30.1) | | 186.7 |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (137.6) | _ | _ | (137.6) |
| Loans made to direct and indirect shareholders | (/ | _ | 470.2 | (70.0) |
| Other investing activities | | | | 2.0 |
| Net cash used by investing activities | (675.8) | | 470.2 | (205.6) |
| Cash flows from financing activities: | | | | |
| Borrowings of third-party debt, net | 446.1 | 680.0 | _ | 1,126.1 |
| Loan from subsidiaries | _ | 470.2 | (470.2) | _ |
| Repayment of note to former shareholder | _ | (1,100.0) | _ | (1,100.0) |
| Other financing activities | <u>(61.9</u>) | (18.3) | | (80.2) |
| Net cash provided (used) by financing activities | <u>384.2</u> | 31.9 | (470.2) | (54.1) |
| | | | | |
| Net increase (decrease) in cash and cash equivalents | (74.8) | 1.8 | _ | (73.0) |
| • | (71.0) | 1.0 | | (70.0) |
| Cash and cash equivalents: | 101.0 | | | 101.0 |
| Beginning of period End of period | | <u>—</u> | <u> </u> | <u>101.0</u> € 28.0 |
| Life of period | ₹ 20.2 | <u>t 1.0</u> | c – | € 20.0 |